THE SECURITIES AND EXCHANGE COMMISSION

Annual Report R 2005

year

(Pursuant to § 86 item 2 of the Decree of the Minister of Finance of 19 October 2005 Journal of Laws No 209 item 1744)
for issuers of securities with the business profile of production, construction, trade or service

for the financial year **2005** period from 2005-01-01 to 2005-12-31

including the financial statements according to IFRS

currency PLN (Polish zloty)

date submitted: 2006-03-31

Elektrobudowa Spółka Akcyjna
(issuer's full name)

Elbudowa
(issuer's abridged name)

Service - construction
(business sector acc. to the WSE classification)

40-246
(postal code)

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(place)

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(street)

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(number)

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(Tax Identification Number - NIP)

271173609
(REGON)

PriceWaterhouseCoopers
(Chartered Accountant)

SELECTED FINANCIAL DATA	in thousands of PLN		in thousands of EURO	
	2005	2004	2005	2004
I. Sales	334 795	281 303	83 214	62 260
II. Operating profit	10 928	10 148	2 716	2 246
III. Profit before taxation	10 865	7 867	2 700	1 741
IV. Net profit	8 735	5 270	2 171	1 166
V. Cash flows from operating activities	17 259	8 564	4 290	1 895
VI. Cash flows from investing activities	-5 311	-1 277	-1 320	-282
VII. Cash flows from financing activities	-10 721	-7 851	-2 665	-1 738
VII. Net increase / decrease in cash	1 227	-564	305	-125
IX. Total assets	172 833	168 674	44 777	41 352
X. Liabilities	103 522	104 121	26 820	25 526
XI. Non-current liabilities	8 512	4 468	2 205	1 095
XII. Current liabilities	95 010	99 653	24 615	24 431
XIII. Equity	69 311	64 553	17 957	15 826
XIV. Share capital	24 821	24 821	6 431	6 085
XV. Number of shares (pcs)	3 971 000	3 971 000	3 971 000	3 971 000
XVI. Book value per share (in PLN / EUR)	17.45	16.26	4.52	3.98

Dear Shareholders

I am very pleased to sum up another year of operations of the Company, to which You entrusted your funds by acquiring its shares and becoming its equity holders. Activity of the Management Board which I represent focuses on operations which enable ELEKTROBUDOWA SA to win a position of one of the largest and best companies in the construction and power sector in Poland.

Efficient and competent management which consist incorporating the methods proven on international markets, permitted us to restructure the Company’s resources and make it an entity that brings value for its shareholders and caters for the needs of its customers.

Owing to restructuring the main area, marketing activity, we are able to prepare unrivalled offers and, consequently, to win the best contracts, not only in our traditional sphere: the power sector. The year 2005 was another year of expansion in the broadly understood public sector and housing construction sector through public procurement tendering for general contracting of investments. An example of such a contract is the Złote Tarasy project in Warsaw or a PLN 16.7m contract, Arkady in Wroclaw.

To ensure comprehensiveness of out offer, and remaining the unquestionable leader in the Polish electrical installation services market, we extended our competences and created an industrial automation division, employing professionals from this branch.

Dynamic growth of export of our products and services is also a clear indication of changes. Our objective is to win a strong position of a supplier of equipment, not only to the Russian market. One of the most important moves of ELEKTROBUDOWA SA Group is the plan of further development of our Eastern partner, KRUELTA, which by now generates as high a profit as PLN 1.7m. Our further goal is to win orders from West European markets through strategic alliances with experienced business partners.

Effectiveness of our performance, in keeping with the adopted strategy, is proved by a most creditable achievement of 65.7% increase in profits to a record PLN 8.7m and the maintained high capitalization of the Company. ELEKTROBUDOWA SA, which for quite a time has been in the group of Companies with long-term growth tendency, provides steady growth of value for its investors. The shareholders can perceive this growth also due to constant policy of paying the dividend, which will be 1.5 PLN this year.

The “Trustworthy Company” title is an assurance for investors, shareholders, customers and employees who have believed that, by complying with corporate governance rules defined in the document “Best Practices of Public Companies”, we care for efficient functioning of the organism – Elektrobudowa SA.

I would like to thank all our shareholders for the confidence they placed in us and thus can enjoy the fruits of their investment.

Despite my inborn optimism I do not expect that the growing macroeconomic boom will be with us forever, so I wish to assure everyone that we will persist in our efforts to increase our productivity and efficiency of our performance.

I am deeply convinced that I will be able to present even better financial result next year and, consequently, offer even higher dividend.

27 March 2006

Jacek Faltynowicz
President

ELEKTROBUDOWA SA

Financial Statements

For the financial year ended 31 December 2005

Index to the financial statements

(all amounts in PLN thousands unless otherwise stated)

Balance Sheet

	Note	As at 31 December 2005	As at 31 December 2004
ASSETS			
Fixed assets		**49 084**	**47 420**
Property, plant and equipment	6	29 822	29 657
Intangible assets	7	2 101	1 945
Available-for-sale financial assets	9	1 735	1 525
Trade and other receivables	11.1	9 707	10 311
Deferred income tax assets	19.1	5 227	3 486
Non-current prepayments and accrued income	11.3	492	496
Current asssets		**123 749**	**121 254**
Inventories	12	3 499	11 833
Trade and other receivables	11.2	92 089	97 360
Derivative financial instruments	10	181	0
Current prepayments and accrued income	14	261	92
Amount due from construction contracts	23.1	20 650	6 127
Cash and cash equivalents	13	7 069	5 842
Total assets		**172 833**	**168 674**
Equity			
Capital and reserves attributable the Company's equity holders		**69 311**	**64 553**
Share capital	15	24 821	24 821
Reserve capital	16	58 186	57 170
Prior years' profit (loss)		-22 431	-22 708
Net profit (loss)		8 735	5 270
Liabilities			
Non-current liabilities		**8 512**	**4 468**
Deferred income tax liabilities	19.2	4 786	2 095
Retirement benefit obligations	20	1 837	1 229
Trade and other payables	17.1	1 889	1 144
Current liabilities		**95 010**	**99 653**
Trade and other liabilities	17.2	60 879	67 504
Corporate income tax obligations		1 181	1 366
Loans, borrowings and debt securities	18	16 415	21 483
Provisions	20	634	36
Accruals	21	3 224	868
Amounts due to construction contracts customers	23.2	12 677	8 396
Total liabilities		**103 522**	**104 121**
Total equity and liabilities		**172 833**	**168 674**

(all amounts in PLN thousands unless otherwise stated)

Income Statement

	Note	Year ended 31 December 2005	Year ended 31 December 2004
Sales of products, goods and materials	22	334 795	281 303
Cost of products, goods and materials sold		-312 833	-254 426
Gross profit (loss) on sales		**21 962**	**26 877**
Selling costs		-1 785	-1 311
Administrative expenses		-7 527	-7 900
Other gains (losses) - net	25	-1 722	-7 518
Operating profit		**10 928**	**10 148**
Finance cost (income) - net	26	-63	-2 281
Profit before tax		**10 865**	**7 867**
Income tax expense	27	-2 130	-2 597
Profit for the year		**8 735**	**5 270**

	Note	2005	2004
Earnings per share for profit attributable to the equity holders of the Company during the year (in PLN per share)			
- basic	28	**2.20**	**1.33**
- diluted	28	**2.16**	**1.31**

(all amounts in PLN thousands unless otherwise stated)

Statement of changes in equity

	Share capital	Reserve capital from share premium	Other reserve capital	Prior years' profit (loss)	Net profit (loss)	Total equity
at 1 January 2005	**24 821**	**10 369**	**46 801**	**-22 708**	**5 270**	**64 553**
net proft (loss)				5 270	3 465	8 735
profit distribution	0	0	1 016	-1 016	0	0
dividend payment	0	0	0	-3 971	0	-3 971
dividend servicing	0	0	0	-6	0	-6
at 31 December 2005	**24 821**	**10 369**	**47 817**	**-22 431**	**8 735**	**69 311**

	Share capital	Reserve capital from share premium	Other reserve capital	Prior years' profit (loss)	Net profit (loss)	Total equity
at 1 January 2004	**24 821**	**10 369**	**46 449**	**-23 433**	**3 068**	**61 274**
net proft (loss)				3 068	2 202	5 270
profit distribution	0	0	1 077	-1 077	0	0
coverage of loss	0	0	-725	725	0	0
dividend payment	0	0	0	-1 991	0	-1 991
at 31 December 2004	**24 821**	**10 369**	**46 801**	**-22 708**	**5 270**	**64 553**

(all amounts in PLN thousands unless otherwise stated)

Cash Flow Statement

	Note	Year ended 31 December 2005	2004
Cash flows from operating activities			
Net profit (loss)		8 735	5 270
Depreciation and amortisation		4 929	5 882
Gains (losses) from currency translation differences		-209	117
Interest and share in profit (dividends)		1 674	1 940
Gains (loss) from investing activities		-182	-870
Movement in deferred income tax assets		950	464
Movement in inventories		8 334	-4 535
Movement in trade and other receivables	30	5 510	-12 462
Movement in liabilities, except loans and borrowings	30	-2 655	17 132
Tax paid		-1 366	-1 831
Movement in current accruals		2 187	-805
Movement in non-current accruals		4	6
Movement in settlements of construction contracts		-10 242	-1 156
Other adjustments	30	-410	-588
Net cash flows rom operating activities		**17 259**	**8 564**
Cash flows from investing activities			
Proceeds from sale of property, plant & equipment and intangible assets		890	2 426
Proceeds from sale of financial assets		0	88
Purchase of property, plant & equipment and intangible assets		-6 201	-3 412
Purchase of financial assets		0	-379
Net cash flows from investing activities		**-5 311**	**-1 277**
Cash flows from financial activities			
Issuance of debt securities		7 964	0
Dividends and other payments to equity holders		-3 971	-1 985
Other than payments to equity holders, profit distribution expenses		-6	-6
Repayments of loans and borrowings		-13 031	-3 920
Payment of financial lease commitments		-42	-65
Interest		-1 635	-1 875
Cash flows from financial activities		**-10 721**	**-7 851**
Net decrease /increase in cash and bank ovedrafts		1 227	-564
Cash at beginning of period		5 842	6 406
Cash and bank ovedrafts at end of period	30	**7 069**	**5 842**

Notes to the financial statements (continued)

1. General information

1.1. Principal activity

Parent company Elektrobudowa SA with its registered office in Katowice, ul. Porcelanowa 12, 40-246 Katowice is a joint stock company established and acting according to the Polish law. The joint stock company was created through transformation of the state-owned company named Przedsiębiorstwo Montażu Elektrycznego "Elektrobudowa" based in Katowice.

The transformation act was made on 9 January 1992 in the form of a notary deed (Repertory No. 225/95) by the Notary Office no.18 in Warsaw run by the notary public Paweł Błaszczak.

The Company was entered in Division B under number 7682 to the Commercial Register of the District Court, X Register Department Katowice, on the basis of valid decision by this Court issued on 3 February 1992 (File number RHB 7682 VII G.Rej. H 248/92).
At present the court of registration for the Company is the District Court in Katowice, Department of Economy of the National Court Register /KRS/ (KRS number: 000007425).

Principal activity of the Company according to the Polish Classification of Activities (PKD 4531 A) is executing of electrical installations in building and structures.

A sector according to the Warsaw Stock Exchange classification: building.

The business activity of Elektrobudowa SA includes:
- Comprehensive electrical installation works as provided in all newly built, extended and modernized power stations and industrial facilities,
- Supply of electric power equipment, mainly the energy transmission and distribution equipment,
- Designing, engineering, testing and commissioning services.

1.2 Going concern concept

Elektrobudowa SA will continue in operational existence for the unspecified time. The Separate financial statements have been prepared with the assumption of continuation of business operations in the foreseeable future. Among the estimates done as at the balance sheet date there are no such estimates which could imply a significant risk of involving material corrections of balance sheet values of assets and liabilities during the next financial year.
If, after preparation of the annual financial statements the entity is informed about events which have substantial effect on this report, or which make the assumption of business continuation by the entity unjustified, the Management Board of Elektrobudowa SA will be entitled to introduce adjustments to the financial statements up to the moment of their approval by the Annual General Meeting. This does not rule out the possibility of introducing retrospective changes to the financial statements related to adjustment of errors, or changes in accounting policies as per IAS 8 in the later periods.
In the opinion of the Management Board there are no circumstances indicating the risk to continuity of business operations.

Notes to the financial statements (continued)

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the years presented in the financial statements.

2.1 Compliance with legislation

The annual report of Elektrobudowa SA is prepared in conformity with the Regulation of the Minister of Finance of 19 October 2005 on current and periodical information provided by issuers of securities.

2.2. Basis of preparation

These financial statements are the first annual report prepared by the Company in accordance with the International Financial Reporting Standards (IFRS, former International Accounting Standards) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), approved by the European Union, and are covered by IFRS 1, "First-time Adoption of IFRS".

Until 31 December 2004 Elektrobudowa SA prepared their financial statements in accordance with the provisions of the Accounting Act of 29 September 1994. The Annual General Meeting of the Company held on 8 February 2005 approved the adoption of International Financial Reporting Standards accepted by the European Union. The date of transition to IFRS was set at 1 January 2004 and the Company prepared an opening balance as at that day. Restatements and description of transition from the Accounting Act to IFRS have been presented in the additional note 3 to the financial statements. The comparative data for 2004 were transformed to reflect the effect of transition to IFRS.

The Company has not prepared or issued full separate financial statements according to IFRS before. To understand the general financial situation and the results of operating activities of Elektrobudowa SA the present statements shall be read together with the consolidated financial statements. The consolidated financial statements for the year ended 31 December 2005 are the part of the consolidated annual report for the year ended 31 December 2005.

The present financial statements have been prepared under the historical cost convention, with the exception of revaluation of derivative instruments shown at fair value.
.
Some key accounting estimates are required for preparing the statements in compliance with IFRS. The Management has to take a number of subjective decisions concerning the application of the accounting policies. More complicated areas, areas which require a subjective judgment or areas in which the assumptions and appraisals are significant for the financial statements as a whole, have been described in additional comments to the financial statements (Notes 15, 20, 23).

On the day of signing the financial statements the Management Board of the Company approves these financial statements.

Notes to the financial statements (continued)

2.3 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the ‘functional currency”). The financial statements are presented in Polish zloty (PLN) which is the functional and presentation currency of the Company.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions as follows:

- disposal of foreign currency and repayment of receivables transactions are translated at the buying rate applied by the bank used by the Company;
- purchase of foreign currency and repayment of payables transactions are translated at the selling rate applied by the bank used by the Company;
- other transactions are translated at average exchange rate for each currency announced by the National Bank of Poland, unless customs documents quote another exchange rate;
- assets and liabilities at the balance sheet date are translated at the average Exchange rate for each currency announced by the National Bank of Poland.

Gains and losses resulting from the settlement of such transactions and from the translation at the year-end of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except where hedge accounting is applied.

2.4 Property, plant and equipment

All property, plant and equipment is show at cost less subsequent depreciation and impairment). Depreciation on assets is calculated using the straight-line method according to rates which reflect their estimated useful life and is ended when the depreciation is balanced with the initial value.

Applied depreciation rates:

Buildings	25-40 years
Plant and machinery	3-15 years
Vehicles	5-7 years
Other	4-10 years

Subsequent expenses are recognised in the carrying amount of each item or included as a separate asset (as appropriate), only when it is probable that the Company will gain future economic benefits associated with the item and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Notes to the financial statements (continued)

At each balance sheet date the value of each item is reviewed in order to estimate if it is not greater than its recoverable amount (if it is greater, the asset's carrying amount is written down to its recoverable amount. The review also covers the adopted depreciation method and establishing whether the depreciation period is adequate for the estimated distribution in time of economic benefits from the asset.
Property, plant and equipment under construction are measured according to costs incurred.

2.5 Intangible assets

Intangible assets are measured at purchase cost or cost of their production.

- Costs incurred on development projects relate to the design and testing of new or improved products, when it is probable that the project will be a success, considering the commercial and technological feasibility and costs can be measured reliably. Development costs that have a final useful life are amortised on a straight-line basis over the period of 3 to 5 years.

- Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use. Costs are amortised on a straight-line basis over 2 years. Costs associated with maintaining computer software programmes are recognized as an expense as incurred;

- Other property rights are recognized at costs of acquiring and amortised on a straight-line method over the estimated useful life (up to 5 years).

2.6 Impairment of assets

Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.
The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.
For the purposes of assessing impairment assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.7 Investments

The Company classifies its investments in the following categories: financial assets at fair value through profit or loss, loans given and receivables, investments held to maturity and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this classification at every reporting date.

Financial assets and liabilities at fair value through profit or loss
The category falls into two sub-categories: financial assets held for trading and those shown at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of reselling in the short term or if so designated by management. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

Notes to the financial statements (continued)

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company directly provides the client with money, goods or services with no intention of trading the receivables. They are included in current assets, with separate recognition of those items which maturities are greater than 12 months after the balance sheet date. Loans and receivables are included in trade and other receivable in the balance sheet.

Investments held to maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. They are classified as non-current assets except those items which maturity is shorter than 12 months after the balance sheet date and classified as current assets.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified elsewhere. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognized on trade date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Granted loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest rate.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and also for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions reference to other instruments that are substantially the same, and discounted cash flow analyses and option valuation models refined to reflect the issuer's specific circumstances. If the fair value of investment, for which there is no active market, is not possible to establish in a reliable way, the investment is valued according to its purchase price.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In determining whether the securities are impaired, a significant or prolonged decline in the fair value of the security below the cost is considered. If any such evidence exists, the difference between the acquisition cost and the current fair value of those assets is recognized in the income statement.

2.8 Leasing

The Company is a party to lease agreements in which another party's property, plant and equipment is taken over for use against charge or for getting rewards through the agreed time.
In case of financial lease where substantially the whole risk and rewards from the leased assets are assigned to the lessee, the lease is recognised in fixed assets at present value of minimum lease payments established for the lease's inception.

Notes to the financial statements (continued)

Lease payments are allocated between liability and finance charges so as to achieve a constant rate on the finance balance outstanding. Financial cost is recognized directly in the income statement.
The property, plant and equipment acquired under leases is depreciated over the shorter of the asset's estimated useful life and the lease term.

Lease payments under agreements which do not meet the requirements for finance lease, are recognised as cost in the income statement on a straight-line basis over the period of the lease.
The right of perpetual usufruct of land is classified as operating lease and is recognised in non-current accruals. The purchase price paid for this right is depreciated over the lease period according to the way of spreading in time the rewards from this right.

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value using the first-in, first-out (FIFO) method.

Finished goods are measured at cost not higher than net realizable value.

Work in progress is measured at cost of direct raw materials and labour as well as justified portion of related production overheads, established basing on normal operating capacity.
The above cost does not comprise borrowing costs.

2.10 Construction contracts

Contract costs are recognised when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognized over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

The Company uses the „percentage of completion method” to determine The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

The Company presents as an asset the amount due from customers for contract work for all contracts in Progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. Progress billings not yet paid by customers and retention are included within „trade and other receivables”.

The Company presents as a liability the amount due to customers for contract work for all contracts in Progress for which Progress billings exceed costs incurred plus recognised profits (less recognised losses).

Notes to the financial statements (continued)

2.11 Trade and other receivables

Trade receivalbes are recognised initially at fair value (current realisable value) and then they are measured at amortised purchase price (amortised cost) using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

Non-current receivables comprise receivables from guarantee security deposits and receivables from the disposal of property, plant and equipment with deferred maturity date.
Current value of non-current receivables (except bank security deposits) as at balance sheet date is established by revaluation of future cash flows using the effective interest rate, based on the interest rate WIBOR–1Y.

2.12 Cash and cash equivalents

Cash and cash equivalents are shown in the balance sheet at their cost. They include cash in hand and at bank, deposits in banks, other short-term investments, highly liquid investments with original maturities of three months or less since they were deposited, received, acquired or issued.

Bank overdrafts are shown within "loans and borrowings" item in current liabilities on the balance sheet.

2.13 Fixed assets held for trading and discontinued operations

Fixed assets (or groups of assets) for disposal are classified as assets held for trading and recognised at carrying value not greater than their fair value less cost to sell, if the carrying amount is to be recovered mainly as result of the sale transaction and not due to use.

2.14 Share capital and reserve capital

Share capital is recognised in the balance sheet at the value specified in the Articles and entered in the court register, with consideration to effects of capital restatement due to hyperinflation as per provisions of IAS 29.

In case of buy back the payment for shares charges the equity and is recognized in the balance sheet item "treasury shares".

Additional costs directly attributable to the issue of new shares or options are shown in equity as a deduction from proceeds, net of tax. Additional costs directly attributable to the issue of new shares or options with the intent to take over the company are shown at cost as part of purchase price.

Reserve capital is established as provided by the Articles from retained earnings and by transfer from other reserves. Furthermore, differences between fair value of payment received and nominal value of shares are recognized in the share premium reserve capital, with consideration to the effect of capital restatement due to hyperinflation as per provisions of IAS 29.

Notes to the financial statements (continued)

2.15 Loans and borrowings

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred.

Later the borrowings are stated at amortised cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 Income taxes

Income tax on gain or loss for the financial year comprises current and deferred portion. Income tax is recognized in the income statement, except for amounts related to items shown directly in the equity, in which case the income tax is recognized in equity.

Current portion of the income tax is the expected tax on taxable income for the year established basing on tax rates valid at the balance sheet date, inclusive of all prior years' tax adjustments.

Provision for deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than business combination, that at the time of the transaction affects neither accounting nor taxable profit. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Because of temporary differences between the value of assets and liabilities recognised in the accounting books and their tax bases, tax loss and investment relief taxable in the future, deferred income tax assets are established. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences, tax losses and investment relief will be utilised.

Current deferred income tax assets and liabilities are offset if there are enforceable laws permitting such offset and if the parties intend to settle their account net or at the same time realize an asset and settle a liability.

Employee benefits

a) Pension and retirement obligations
   The Company operates a pension and retirement benefits scheme. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.
   The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension or retirement benefit liability.

Notes to the financial statements (continued)

b) Share-based plans
Share options awarded before 7 November 2002 are not subject to cost. Shares are recognized when the options are exercised and the proceeds gained are credited to share capital and share premium. The Company does not operate share option scheme awarded after 7 November 2002.

c) Termination benefits
Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

d) Bonus plans
The Company recognises a liability and an expense for bonuses defined in objective cards which are annexed to employment contracts. Provision for bonuses is established (expense recognized on a time-proportion basis) and recognised in accrued expenses.

2.18 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when:
- The Company has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of the Company's resources will be required to settle the obligation, and
- the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligation as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

2.19 Trade and other payables

Trade and other payables other than financial obligations are recognised at amounts due and subsequently measured at amortised cost.
Non-current liabilities are discounted to their present values at the effective interest rate based on the interest rate WIBOR–1Y.

Notes to the financial statements (continued)

2.20 Revenue recognition

Revenue comprises the fair value of the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales among the Company divisions.

a) Sales of goods are recognised when significant part of risks and rewards from ownership of products and goods have been passed on the customer.

b) Revenue from long-term construction contracts are recognised according to the rules presented in item 2.10.

c) Sales of services are recognised in the accounting period in which the services are rendered, when:
   - the amount of revenue can be reliably estimated,
   - the entity is likely to gain financial profit from the transaction,
   - stage of completion of the transaction on the balance sheet date can be reliably determined.

d) Interest income is recognised on a time-proportion basis using the effective interest method.

e) Dividend income is recognized when the right to receive payment is established. Financial costs cover interest on loans and borrowings and the amount of settled discount. Interests related to borrowings are charged in the income statement at the moment they were incurred and are recognized in financial costs.

2.21 Method of establishing the financial result

Financial result is established using the following methods:

- Time-proportion (accruals) method, according to which all business operations concerning the reporting period in the books of the Company and in the consolidated financial statements, disregarding the fact whether they were paid as at the balance sheet date.

- Proportion of costs to revenues method, according to which the financial result has been measured basing on total revenues in the reporting period and costs of obtaining revenue for this period, other operating revenues and expenses and financial revenues and costs.
  Revenues are recognised in the amount for which it is probable that the Company will obtain economic benefits which can be reliably measured.
  Financial costs include interest on loans and borrowings and the amount of discount to be settled. Any interest is charged in the income statement at the moment it is incurred and is recognized in financial costs.

2.22 Financial risk management

Interest rate risk

As the business operations of Elektrobudowa SA are partly financed by bank loans, the Company is exposed to the risk of interest rate fluctuations. The level and fluctuations of interest rates and also the fact that the Company does not have long-term loans did not cause the necessity to use any hedging instruments.

Notes to the financial statements (continued)

Foreign exchange risk

The Company is exposed to foreign exchange risk arising from commercial transactions. The risk arises when the Company purchases for a currency which is not its functional currency. As Elektrobudowa is exposed to foreign currency risk connected with its operating activities, the Company takes measures to limit the risk. The risk management policy consists in securing the selling prices against the drop of foreign currency exchange rate, which adversely affects the prices. Forward contracts are used to manage their foreign exchange risk.

Credit risk

Elektrobudowa's customers who wish to be credited undergo the preliminary verification procedure. The level of debt is continually monitored. Trade credit is characterized by significant diversification of risk, as they are granted to a large number of customers. The Company is not exposed to high risk of significant concentration of credited sales.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities and guarantee lines.

2.23 Segment reporting

Business activity of Elektrobudowy SA is categorised by industries.
A segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

Segment costs are identified by costs comprising cost of sales to external customers and cost of transactions with other segments which result from operating activity of the segment and can be directly attributed to the segment.

In these financial statements, a geographical segment is the area of Elektrobudowa's activity engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments (domestic and foreign).

2.24 New accounting standards and IFRIC interpretations

Listed below are newly published standards, amendments and interpretations mandatory for accounting periods beginning on or after 1 January 2006. Presented is also the opinion of the Management Board of the Company on the effect of new standards and interpretations on the financial situation of the Company.

a) IFRS 6 Exploration for and Evaluation of Mineral Resources

The Company does not have any assets connected with the exploration for and evaluation of mineral resources. Provisions of this standards do not effect the financial statements of Elektrobudowa SA.

b) Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and to IFRS 6 Exploration for and Evaluation of Mineral Resources

Notes to the financial statements (continued)

Amendments to IFRS 1 and IFRS 6 have been issued in order to explain the IASB intentions related to the exclusions foreseen for those first-time adopters of IFRS who decide to adopt IFRS 6 earlier. The amendments do not affect the financial statements of Elektrobudowa SA.

c) IFRIC 4 Determining Whether an Arrangement Contains a Lease
IFRIC 4 is for the first time applied to annual periods beginning on 1 January 2006. The Interpretation provides guidelines to whether the arrangements which do not have a legal form of a lease agreement shall be recognized according to IAS 17 Leasing. Elektrobudowa SA did not take a decision of earlier adopting the IFRIC 4. This interpretation and its transitional provisions will be applied in the Company's financial statements for the year ended 31 December 2006. It means that the Company will apply IFRIC 4 basing on facts and circumstances as at 1 January 2005. The Company executives are just estimating the effect of IFRIC 4 on the Company's operations.

d) IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
Elektrobudowa SA does not hold any interests in funds established to reimburse decommissioning, restoration and Environmental rehabilitation. The Interpretation will not affect the financial statements of ELEKTROBUDOWA SA.

e) Amendment to IAS 39 Financial Instruments: Recognition and Measurement. Fair Value Option.
The amendment defines the financial instruments measured at fair value with profits or losses through the income statement and restricts the use of the option to those instruments which meet the specified conditions. The amendment also provides that if a contract contains an embedded derivative the fair value option may be applied, if this can significantly limit the incoherence of assets and liabilities valuation. The entities which prepare their financial statements according to IFRIC can, owing to the amendments, measure any previously recognized liabilities or financial assets at fair value not later as at 1 September 2005. The Company decided not to measure its assets and financial liabilities at fair value.

f) Amendment to IAS 39 Financial Instruments: Recognition and Measurement. Cash Flow Hedges of Forecast Intragroup Transactions.
The amendment applies to annual periods beginning on or after 1 January 2006. It permits the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge in consolidated financial statements. No effect of this interpretation on the change of accounting standards applied to any contract that has been concluded so far by ElektrobudowaSA.

g) Amendment to IAS 39 Financial Instruments: Recognition and Measurement and IFRS Insurance Contracts. Financial Guarantee Contracts.
The Amendment applies to financial guarantee contracts and requires the issuers of financial guarantees to recognize liabilities arising from such contracts in the balance sheet. Provisions of this standard will not affect the Company's financial statements.

h) IFRIC 6 Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment.
IFRIC 6 clarifies when certain producers of electrical goods are required to recognise a liability for the cost of waste management relating to the decommissioning of waste electrical and electronic equipment supplied to private households. This interpretation will not affect the Company's financial statements.

i) IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 7 provides guidelines for application of IAS 29 in the reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency when the economy has not been hyperinflatory in the prior period, so the entity is required to restate its financial statements according to IAS 29. This interpretation does not affect the Company's financial statements.

Notes to the financial statements (continued)

j) IFRIC 8 Scope of IFRS 2
IFRIC 8 was issued on 12 January 2006 to clarify that IFRS 2 *Share-based Payment* applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. This interpretation will not affect the Company's financial statements.

k) IFRS 7 Financial Instruments: Disclosures
IFRS 7 was issued on 18 August 2005 together with an additional amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures. IFRS 7 is effective for annual periods beginning on or after 1 January 2007 It introduces new requirements for disclosure of financial instruments and replaces IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions and certain requirements of IAS 32 Financial Instruments: Disclosure and Presentation. Elektrobudowa SA will apply these new requirements for disclosure.

l) Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures
The amendment is effective for annual periods beginning on or after 1 January 2007. It is a further development of IFRS 7 Financial Instruments: Disclosures and adds the requirements for requirements for disclosures of:
- the entity's objectives, policies and processes for managing capital;
- quantitative data about what the entity regards as capital;
- whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance.

Elektrobudowa SA will apply these new requirements for disclosure.

m) Amendment to IAS 19 Employee Benefits
The amendment allows another option of recognising actuarial gains and losses. It can also impose additional requirements for recognizing multi-employer plans, where not enough information is available to apply defined benefits accounting. The amendment also prescribes new requirements for the disclosure of information. The interpretation will not have any effect on the financial statements of the Company.

In the opinion of the Management Board of Elektrobudowa SA, newly published standards, amendments and interpretations mandatory for accounting periods beginning on or after 1 January 2006,will not substantially affect the Company's financial statements or its financial standing.

3. Adopting the IFRS for the first time

The Company adopted IFRS for the first time in its financial statements for the first quarter ended 31 March 2005 with the date of transition to IFRS as 1 January 2004. The financial statements as at 31 December 2005 will be the Group's first consolidated financial statements that comply with IFRS.

In preparing these financial statements for the year 2005 all mandatory exemptions have been applied and the following other exemption from full application of IFRS:

Fair value as deemed cost exemption
Opening balance of certain property, plant and equipment items as at 1 January 2004 was prepared basing on IFRS 1 which allows for fair value as the acquisition price.

Until the end of 2004 separate financial statements of Elektrobudowa SA were made in accordance with the provisions of the Accounting Act of 29 September 1994, Regulation of the Council of Ministers of 19 March 2002 which amended the Regulation of the Council of Minister of 16 October 2001 on current and periodical information provided by issuers of securities, and of the Regulation of the Council of Ministers of 11 August 2004 on detailed requirements for a prospectus and a summary of a prospectus.

Notes to the financial statements (continued)

Basing on the resolution of the Extraordinary General Meeting of Shareholders held on 8 February 2005, since 1 January 2005 Elektrobudowa SA makes separate financial statements and consolidated financial statements of the Capital Group ELEKTROBUDOWA SA in accordance with the requirements of the IFRS.

Because of adopting the IFRS to prepare the financial statements of Elektrobudowa SA, the financial statements for comparative periods have been accordingly converted.

Following the transition from the Polish Accounting Principles used earlier to UE standards for interim financial statements, the financial standing of the Company and its financial results of operations changed as follows:

a) balance sheet total as at 31.12.2004 decreased by PLN 5,206 thousand, mainly due to discounting the non-current receivables (PLN -2,704 thousand);

b) net profit as at 31.12.2004 rose by PLN 254 thousand, mainly due to the adjustment caused by recognizing amounts due and amounts payable on building contracts in accordance with standards valid in the EU (PLN +2 986 thousand) as well as receivables revaluation write-offs adjustment (PLN -2000 thousand) and depreciation of fair value of property, plant and equipment (PLN -298 thousand). For the year 2004 reclassification was made of financial costs and income in the amount of PLN 2,207 thousand to other net gains (losses).

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

Reconciliation of transition from the Polish Accounting Standards to IFRS

3.1 Reconciliation of Elektrobudowa SA balance sheet items as at 1 January 2004.

	Polish Accounting Principles	EU Standards	Effects of transition	Explanation of changes
Assets				
Fixed assets	**44 773**	**49 148**	**+ 4 375**	
Property, plant and equipment	32 225	30 856	- 1 369	- 894 transfer of right to perpetual usufruct of land to off-balance sheet accounts - 475 measurement of property, plant and equipment at fair value
Intangible assets	2 776	2 776	-	
Trade and other receivables	5 037	9 650	+ 4 613	-2 362 discount +6 975 receivables over 12 months carried from current assets
Available-for-sale financial assets	1 296	1 296	-	
Deferred income tax assets	3 439	4 570	+1 131	adjustment of income tax on: + 592 valuation of up to-6-month contracts + 449 discounts + 90 fair value measurement
Current assets	**111 032**	**104 188**	**-6 844**	
Inventories	7 308	7 304	-4	prepayments carried to Prepayments and accrued income
Trade and other receivables	93 488	86 513	-6 975	- 6 975 over-12-month receivables carried to non-current assets
Accounts due from construction contracts	3 577	3 708	+ 131	valuation of up-to-6-month contracts
Prepayments	253	257	+4	prepayments carried from Inventories
Cash and cash equivalents	6 406	6 406	-	
Total assets	**155 805**	**153 336**	**-2 469**	
Equity and liabilities				
Equity	**65 992**	**61 274**	**-4 718**	
Share capital	8 450	24 821	+ 16 371	restatement due to hyperinflation
Reserve capital	52 590	56 818	+ 4 228	+ 2 609 transfer from other reserves + 1 619 restatement of capital in excess of nominal value due to hyperinflation
Other reserves	2 609	-	- 2 609	transfer to reserve capital
Prior years' profit (loss)	- 725	-23 433	- 22 708	- 17 990 capital restatement due to hyperinflation - 4 718 effect of adjustments at 1 January 2004
Profit (loss)	3 068	3 068	-	
LIABILITIES	**89 813**	**92 062**	**+2 249**	
1. Non-current liabilities	4 156	4 181	+ 25	
Deferred income tax liabilities	2 690	2 715	+ 25	adjustment of deferred tax on contracts up to 6 monthskorekta podatku odroczonego od kontr. o okres.realizacji poniżej 6 m-cy
Pension benefits obligations	1 277	1 277	-	
Trade and other liabilities	189	189	-	
2. Current liabilities	85 657	87 881	+2 224	
Trade and other payables	55 345	52 755	- 1 630	provisions carried to accrued expenses
Corporate income tax payables	801	801	-	
Loans, borrowings and debt securities	25 402	25 402	-	
Provisions	159	159		
Accrued expenses	894	1 630	+ 736	- 894 transfer of right to perpetual usufruct of land to off-balance sheet accounts + 1 630 liabilities
Accounts payable to construction contracts customers	4 016	7 134	+ 3 118	+ 3 118 valuation adjustment of contracts up to 6 months
Equity and liabilities, total	**155 805**	**153 336**	**- 2 469**	

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

3.2 Reconciliation of balance sheet items as at 31 December 2004

	Polish accounting standards	EU standards	Effect of transition	Explanation of the effect of transition
Assets				
Fixed assets	**46 399**	**47 420**	**1 021**	
Property, plant and equipment	31 668	29 657	-2 011	- 742 transfer of land to off-balance sheet account - 496 transfer of right to perpetual usufruct of land - 773 restatement to fair value
Intangible assets	1 926	1 945	19	transfer of prototypes
Available-for-sale financial assets	1 525	1 525	0	
Trade and other receivables	8 841	10 311	1 470	- 2 704 discount of receivables + 4 174 amounts due over 12 months carried from current assets
Deferred income tax assets	2 439	3 486	1 047	deferred tax on: + 514 discount + 147 fair value valuation + 380 written off receivables + 6 valuation of goods
Non-current accruals	0	496	496	496 transfer of right to perpetual usufruct of land and tangible fixed assets
Current assets	**127 481**	**121 254**	**-6 227**	
Inventories	11 867	11 833	-34	adjustment valuation of goods
Trade and other receivables	103 534	97 360	-6 174	- 2 000 write-off of receivables - 4 174 receivables over 12 months transferred to fixed assets
Prepayments and accrued income	111	92	-19	transfer of prototypes
Amounts receivable from construction contracts	6 127	6 127	0	
Cash and cash equivalents	5 842	5 842	0	
Total assets	**173 880**	**168 674**	**-5 206**	
EQUITY	**69 017**	**64 553**	**-4 464**	
Share capital	8 450	24 821	16 371	capital restatement due to hyperinflation
Reserve capital	53 132	57 170	4 038	+ 2 419 transfer from reserve capital + 1 619 restatement of capital in excess of nominal value due to hyperinflation
Other reserves	2 419	0	-2 419	carried to reserve capital
Prior years' profit (loss)	0	-22 708	-22 708	- 17 990 capital restatement due to hyperinflation - 4 718 the effect of adjustments at 01.01.2004
Profit (loss)	5 016	5 270	254	adjustment described with the income statement
LIABILITIES	**104 863**	**104 121**	**-742**	
1. Non-current liabilities	4 468	4 468	0	
Deferred income tax liabilities	2 095	2 095	0	
Retirement benefit obligations	1 229	1 229	0	
Trade and other payables	1 144	1 144	0	
2. Current liabilities	100 395	99 653	-742	
Trade and other payables	68 372	67 504	-868	carried to accrued expenses
Corporate income tax payables	1 366	1 366	0	
Loans, borrowings and debt securities	21 483	21 483	0	
Provisions	36	36	0	
Accrued expenses	742	868	126	- 742 transfer of right to perpetual usufruct of land to off-balance sheet accounts + 868 liabilities due to provisions
Amounts due to construction contract customers	8 396	8 396	0	
Total equity and liabilities	**173 880**	**168 674**	**- 5 206**	

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

3.3 Reconciliation of Elektrobudowa SA income statement for the year ended 31 December 2004

	Polish accounting standards	EU standards	Effect of transition	Explanation of changes
Sales	278 091	281 303	3 212	+ 2.986 Reversal of provisions for 2003 contracts up to 6 months + 226 realised positive currency translation differences
Cost of goods sold	-253 484	-254 426	-942	- 34 goods valuation adjustment - 908 realised negative translation differences
Gross profit on sales	**24 607**	**26 877**	**2 270**	
Selling costs	-1 311	-1 311	0	
Administrative expenses	-7 602	-7 900	-298	amortisation of fair value valuation
Other gains (losses) - net	-5 311	-7 518	-2 207	- 2.000 receivables impairment - 341discount of receivables + 2 finance income - discount + 1 551 interest + 39 valuation positive currency differences + 1 260 reversal of write off for interest - 487 calculated and paid interest on liabilities - 635 valuation negative currency translation differences - 733 written off interest on overdue debts - 923 written down interest - 628 bank commission on loans and guarantees and stamp duty on bills of exchange
Operating profit (loss)	**10 383**	**10 148**	**-235**	
Finance income (cost) - net	-2 830	-1 593	1 237	- 2 finance income - discount - 1 551 interest - 337 reversal of written off interest due to payment + 487 calculated and paid interest on liabilities + 733 written off interest on overdue debts + 628 bank commission on loans and guarantees and stamp duty on bills of exchange + 1 544 negative currency translation differences - 265 positive currency translation differences
Profit before tax	**7 553**	**8 555**	**1 002**	
Income tax	-2 537	-2 597	-60	deferred tax adjustment
Net profit for the year	**5 016**	**5 958**	**942**	

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

3.4 Reconciliation of cash flows in Elektrobudowa SA for the year ended 31 December 2004

Reconciliation of Elektrobudowa SA cash flow statement for the year ended 31 December 2004

		Polish accounting standards	EU standards	Effect of transition	Explanation of the effect of transition
A	**Cash flows from operating activities**	**8 754**	**8 564**	**-190**	
I.	Net profit	5 016	5 270	254	explanation at the income statement
II	Adjustments	3 738	3 294	-450	
1.	Depreciation and amortisation	5 600	5 882	282	+ 298 depreciation of tangible fixed assets - 10 correction of amortisation of perpetual usufruct of land
2.	Gains (losses) from currency translation differences	117	117	0	movement in cash due to currency differences
3.	Interest and share in profit (dividends)	1 940	1 940	0	
4.	Gains (loss) from investing activities	-727	-870	-143	not amortised value of disposed of land
5.	Movement in deferred income tax assets	405	464	59	deferred income tax assets
6.	Movement in inventories	-4 564	-4 535	29	+ 34 correction of goods valuation - 5 prepayment transferred to accruals
7.	Movement in trade and other receivables	-14 803	-12 462	2 341	+ 2000 creation of write-off for receivables + 341 discounting the receivables
8.	Movement in liabilities, except loans and borrowings	16 370	17 132	762	+ 152 transfer of land to off-balance sheet accounts - 25 provision for deferred tax on amounts due from construction contract
9.	Tax paid	-1 831	-1 831		
10.	Movement in current accruals	-11	-805	-794	provision transferred from inventories
11.	Movement in non-current accruals	0	6		
12.	Movement in settlements of construction contracts	1 830	-1 156	-2 986	2 986 cancelled provision for contracts up to 6 months form 2003
13.	Other adjustments	-588	-588	0	
B	**Cash flows from investing activities**	**-1 467**	**-1 277**	**190**	
I.	Cash inflows	2 514	2 514	0	
II.	Cash outflows	3 981	3 791	-190	
C	**Cash flows from financial activities**	**-7 851**	**-7 851**	**0**	
I.	Cash inflows	0	0	0	
II.	Cash outflows	7 851	7 851	0	
1.	Dividend	1 985	1 985		
2.	Other expenses	6	6		
3.	Loan repayment	3 920	3 920	0	
4.	Lease contracts payments	65	65	0	
5.	Interest and share in profit (dividends)	1 875	1 875	0	
D	**Net cash flows**	**-564**	**-564**	**0**	
E	**Cas at the beginning of period**	**6 406**	**6 406**	**0**	
G	**Cas nad borrowings at end of period**	**5 842**	**5 842**	**0**	

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

3.4 Reconciliation of equity at 31 December 2004

Polish accounting standards	69 017
Valuation of fixed tangible assetts to fair value	-627
Discounting non-currents receivables	-2 190
Recognition of accounts receivable / accounts payable on construction contracts	0
Error adjustment - creating receivables revaluation write-off	-1 620
Adjustment of error in finished products valuation	-27
Adjustments due to transition to IFRS	**64 553**

3.5 Reconciliation of net income at 31 December 2004

Polish accounting standards	5 016
Valuation of fixed tangible assetts to fair value	-243
Discounting non-currents receivables	-275
Recognition of accounts receivable / accounts payable on construction contracts	2 419
Error adjustment - creating receivables revaluation write-off	-1 620
Adjustment of error in finished products valuation	-27
Adjustments due to transition to IFRS	**5 270**

Changes to the balance sheet items as at 31 December 2004 and in the income statement and the cash flow statement for the year ended 31 December 2004 which are in these statements compared with the data for the same period recognized in the financial statements for six months ended 30 June 2005 result from the change in classification and do not effect net assets or the balance sheet total.

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

4. Operations discontinued in the reporting period or to be discontinued in the next period

In 2005 no operation was discontinued by the Company and no such discontinuation is planned for the following period.

5. Segment information

Primary reporting format – business segments

At 31 December 2005, the Company is organised into four business segments, which are subject to different kinds of risks and gains:

- The segment: Power Generation Division provides services for power and heat generating stations, heavy industry, particularly metallurgy and mining together with processing facilities. The services include electrical installation works, commissioning and start up of electrical plant and equipment, and also manufacture and installation of high-current busducts.

- The segment: Industry Division renders services for broadly understood public sector, trade (hypermarkets) and industry, particularly petrochemical, paper & pulp, road building. The services include electrical installation, commissioning and start-up and general contracting for investments.

- The segment: Power Distribution Division provides overall services for the power distribution sector and supplies of products manufactured by the Division. The core business of the segment is the production and sale of low and medium voltage equipment, particularly low and medium voltage switchgears and mobile substations, manufacture and sale of steel cable trays and supports, manufacture and sale of control and signalling equipment, the supply of complete distribution substations and general contracting for power transmission and distribution projects.

- The segment: Other services provides other material and not material services for external customers

Business segment results in 2005

	Power Generation Division	**Industry Division**	**Power Distribution Division**	**Other services**	**Total**
Gross sales revenue	108 831	124 158	136 980	6 673	**376 642**
Inter-segment sales*	1 629	914	35 513	3 791	**41 847**
Net sales	107 202	123 244	101 467	2 882	**334 795**
Operating profit	1 395	3 766	5 954	-187	**10 928**
Financial activities result					**-63**
Taxable profit					**10 865**
Income tax					**-2 130**
Net profit					**8 735**

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

Other segment information through the income statement for the year ended 31 December 2005

	Power Generation Division	Industry Division	Power Distribution Division	Other services	Total
depreciation	673	383	1 156	1 769	**3 981**
amortisation	144	98	582	123	**947**

* inter-segment transactions are based on market prices

Business segment results in 2004

	Power Generation Division	Industry Division	Power Distribution Division	Other services	Total
Gross sales revenue	110 260	88 242	126 706	7 223	**332 431**
Inter-segment sales*	5 433	1 754	39 833	4 108	**51 128**
Net sales	104 827	86 488	86 873	3 115	**281 303**
Operating profit	4 119	3 517	6 778	-4 266	**10 148**
Financial activities result					**-2 281**
Taxable profit					**7 867**
Income tax					**-2 597**
Net profit					**5 270**

Other segment information through the income statement for the year ended 31 December 2004

	Power Generation Division	Industry Division	Power Distribution Division	Other services	Group total
depreciation	915	415	904	2 041	**4 275**
amortisation	218	168	968	253	**1 607**

* inter-segment transactions are based on market prices

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

Assets and liabilities of segments as at 31 December 2005

	Power Generation Division	Industry Division	Power Distribution Division	Other services	Group total
Assets	45 928	58 721	32 597	35 587	**172 833**
Liabilities	18 885	49 181	26 759	8 697	**103 522**
Capital expenditure	1 101	791	1 859	1 844	**5 595**

Assets and liabilities of segments as at 31 December 2004

	Power Generation Division	Industry Division	Power Distribution Division	Other services	Group total
Assets	47 831	33 826	52 347	34 670	**168 674**
Liabilities	29 176	27 851	39 497	7 597	**104 121**
Capital expenditure	615	510	3 024	440	**4 589**

Impairment of receivables by segments

	Power Generation Division	Industry Division	Power Distribution Division	Other services	Group total
as at 31 December 2005	9 541	2 891	3 476	4 583	**20 491**
as at 31 December 2004	10 940	5 636	3 982	4 653	**25 211**

Secondary reporting format – geographical segments

ELEKTROBUDOWA SA operates in the domestic market and in foreign markets.

	year ended 31 December	
	2005	**2004**
Sales		
domestic	311 254	259 360
export	23 541	21 943
	334 795	**281 303**

Export sales are carried out by the Power Distribution and Power Generation segments

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

6. Property, plant and equipment

	at 31 December 2005	2004
Tangible fixed assets, of which:	29 396	28 194
- buildings, facilities, civil engineering structures	20 483	20 664
- plant and machinery	5 625	5 408
- vehicles	2 393	1 615
- other assets	895	507
Tangible fixed assets under construction	426	1 463
	29 822	**29 657**

Property, plant and equipment are mortgaged to secure bank loans and extended guarantees:

a) ING Bank Śląski headquartered in Katowice, up to PLN 2,000,000.00.
b) ING Bank Śląski headquartered in Katowice, up to PLN 1,660,000.00.
c) PKO BP headquartered in Warsaw, up to PLN 6,300,000.00.
d) BPH SA headquartered in Katowice, up to PLN 8,516,615.00.
e) Bank Handlowy headquartered in Warsaw, up to PLN 2,100,000.00.

Property, plant and equipment are subject to a pledge by registration to secure repayment of borrowings and guarantees extended by:
a) ING Bank Śląski headquartered in Katowice up to PLN 2,440,600.00.
b) BPH SA headquartered in Katowice up to PLN 1,680,495.59.

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

	- buildings, facilities, civil engineering structures	- plant and machinery	- vehicles	- other fixed tangible assets	Total fixed tangible assets
Gross value of fixed tangible assets at 1 January 2005	21 842	24 493	6 627	5 066	58 028
Additions (of which):	985	2 481	1 442	619	5 527
- purchase	0	800	1 442	619	2 861
- take over from investment	985	1 681	0	0	2 666
Reductions (of which):	-189	-1 028	-197	-107	-1 521
- selling	-185	-815	-197	-10	-1 207
- liquidation	-4	-213	0	-97	-314
Gross value of fixed tangible assets at 31 December 2005	22 638	25 946	7 872	5 578	62 034
Accumulated depreciation at 1 January 2005	-1 178	-19 085	-5 012	-4 559	-29 834
Depreciation for the period (of which):	-977	-1 236	-467	-124	-2 804
- current depreciation	-997	-2 101	-652	-231	-3 981
- not depreciated assets, liquidated, scrapped or sold	20	865	185	107	1 177
Accumulated depreciation at 31 December 2005	-2 155	-20 321	-5 479	-4 683	-32 638
Net tangible fixed assets at 31 December 2005	**20 483**	**5 625**	**2 393**	**895**	**29 396**

Property, plant and equipment is recognised at purchase price (manufacture cost), but land and buildings were measured at fair value at the date of transition to IFRS

Fair value of land and buildings at 1 January 2004 was measured using the investment method and simple capitalisation technique in the middle of 2004 by external independent valuers.

The valuation covered buildings, premises and civil engineering facililites shown in Elektrobudowa's assets at 1 January 2004.

The estimation surveys from the valuations are kept by Elektrobudowa S.A..

Net carrying value of fixed tangible assets, without consideration to fair value, is 30,286 thousand zloty at 31 December 2005 and 28,967 thousand zloty at 31 December 2004.

The Company does not have any property plant and equipment with restricted right of use.

Elektrobudowa SA does not have any substantial property, plant and equipment used against a lease contract.

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

	- buildings, facilities, civil engineering structures	- plant and machinery	- vehicles	- other fixed tangible assets	Total fixed tangible assets
Gross value of fixed tangible assets at 1 January 2004	22 311	24 347	6 172	4 961	57 791
Additions (of which):	194	1 646	922	271	3 033
- purchase	0	1 310	922	236	2 468
- take over from investment	194	326	0	0	520
- valuation of stock-taking differences	0	10	0	35	45
Reductions (of which):	-663	-1 500	-467	-166	-2 796
- selling	-663	-651	-401	0	-1 715
- liquidation	0	-849	-66	-166	-1 081
Gross value of fixed tangible assets at 31 December 2004	21 842	24 493	6 627	5 066	58 028
Accumulated depreciation at 1 January 2004	0	-18 359	-4 802	-4 351	-27 512
Depreciation for the period (of which):	-1 178	-726	-210	-208	-2 322
- current depreciation	-1 178	-2 109	-644	-344	-4 275
- not depreciated assets, liquidated, scrapped or sold	0	1 387	434	161	1 982
- valuation of stock-taking differences	0	-4	0	-25	-29
Accumulated depreciation at 31 December 2004	-1 178	-19 085	-5 012	-4 559	-29 834
Net tangible fixed assets at 31 December 2004	**20 664**	**5 408**	**1 615**	**507**	**28 194**

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

	at 31 December 2005	at 31 December 2004
Depreciation of property, plant and equipment is charged to the income statement:		
cost of products, goods and material sold	3 547	3 833
administrative expenses	434	441
other operating expenses	0	1
	3 981	**4 275**

	at 31 December 2005	at 31 December 2004
Property, plant and equipment by ownership		
owned	29 296	28 063
leased	100	131
	29 396	**28 194**

	at 31 December 2005	at 31 December 2004
Off-balance sheet property, plant and equipment		
perpetual use of land received free of charge	710	746

Off-balance sheet asset comprise the value of land in perpetual use, measured on the basis of annual fees paid by Elektrobudowa SA. Percentage rate of the annual fee of most lands is 3%; the fee is calculated by multiplying the rate and the value of land. Total fees are included in invoices issued by relevant governmental bodies which administer the lands owned by the State Treasury, or by executive bodies of a commune, a county or voivodship in case of land owned by them

7. Intangible assets

	at 31 December 2005	at 31 December 2004
Cost of finished development works	668	897
Acquired concessions, patents, licences and similar	675	1 029
Cost of unfinished development works	758	19
	2 101	**1 945**

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

	cost of finished development works	concessions, patents, licenses and software	other intangible assets	cost of unfinished development works	Intangible assets, total
Gross value of intangible assets at 1 January 2005	4 151	4 084	1 734	19	9 988
Additions, of which:	165	199	0	739	1 103
- purchase	0	199	0	0	199
- internally generated	0	0	0	904	904
- finished development works charged into costs	165	0	0	-165	0
Gross value of intangible assets at 31 December 2005	4 316	4 283	1 734	758	11 091
Accumulated amortisation at 1 January 2005	-3 254	-3 055	-1 734	0	-8 043
Amortisation for the period, of which:	-394	-553	0	0	-947
- current amortisation	-394	-553	0	0	-947
Accumulated amortisation at 31 December 2005	-3 648	-3 608	-1 734	0	-8 990
Net intangible assets at 31 December 2005	**668**	**675**	**0**	**758**	**2 101**

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

	cost of finished development works	concessions, patents, licenses and software	other intangible assets	cost of unfinished development works	Intangible assets, total
Gross value of intangible assets at 1 January 2004	3 583	4 847	1 734	209	10 373
Additions, of which:	568	189	0	-190	567
- purchase	0	189	0	0	189
- internally generated	0	0	0	378	378
- finished development works charged into costs	568	0	0	-568	0
Reductions, of which:	0	-952	0	0	-952
- derecognised totally impaired software	0	-578	0	0	-578
- withdrawal from a licence contract	0	-374	0	0	-374
Gross value of intangible assets at 31 December 2004	4 151	4 084	1 734	19	9 988
Accumulated amortisation at 1 January 2005	-3 049	-2 952	-1 387	0	-7 388
Amortisation for the period, of which:	-205	-103	-347	0	-655
- current amortisation	-205	-891	-347	0	-1 443
- derecognised totally impaired software	0	578	0	0	578
- withdrawal from a licence contract - amortisation	0	-164	0	0	-164
- withdrawal from a licence contract - liquidation	0	374	0	0	374
Accumulated amortisation at 31 December 2004	-3 254	-3 055	-1 734	0	-8 043
Net intangible assets at 31 December 2004	**897**	**1 029**	**0**	**19**	**1 945**

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

	year ended 31 December	
	2005	**2004**
Amortisation of intangible assets has been recognised in the income statement in items:		
cost of goods sold	825	1 194
administrative expenses	122	249
other operating costs	0	164
	947	**1 607**

No borrowings or other liabilities of Elektrobudowa SA are secured on intangible assets.

Elektrobudowa SA does not have any intangible assets with unlimited time to use.

8. Joint ventures

In 2005 ELEKTROBUDOWA SA did not enter in any joint ventures.

9. Available-for-sale financial assets

	at 31 December	
	2005	**2004**
Shares	**1 735**	**1 525**
of which:		
- in related parties	856	646
of which:		
Konip	70	70
Kruelta	786	576
- in other entities	879	879

Elektrobudowa's interest in related parties:

Konip	100%
Kruelta	51%

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

	at 31 December 2005	2004
Movements in available-for-sale financial assets by category:		
Beginning of period	1 525	1 296
Additions, of which:	210	309
- increase of KRUELTA's capital	114	0
- acquisition of shares in KONIP	0	70
- other	96	239
Reductions, of which:	0	-80
- disposal of shares in POLNORD - ENERGOBUDOWA	0	-80
End of period	**1 735**	**1 525**

	at 31 December 2005	2004
Available-for-sale financial assets by negotiability:		
With unrestricted negotiability, not listed in regulated market (carrying amount)	1 735	1 525
Shares (carrying amount):	1 735	1 525
- impairment	-1 221	-1 221
- value according to acquisition price	2 956	2 746
Carrying amount, total	**1 735**	**1 525**

Shares have been valued at purchase price with consideration to impairment, as it was impossible to reliably establish their fair value
Available-for-sale financial assets include shares in BIPROHUT (not related party); the other shares refer to Kruelta and KONIP which are subject to consolidation

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

Details of BIPROHUT at 31 December 2005

Name and legal form	registered office	business activity	carrying amount of shares	total assets	the company's equity, of which:	- share capital	profit	liabilities and reserves for liabilities	interest in share capital	% of votes in the general meeting
BIPROHUT	Gliwice	design engineering	879	10 249	5 150	3 301	1 492	5 099	22,54	20,93

Details of BIPROHUT at 31 December 2004

Name and legal form	registered office	business activity	carrying amount of shares	total assets	the company's equity, of which:	- share capital	profit	liabilities and reserves for liabilities	interest in share capital	% of votes in the general meeting
BIPROHUT	Gliwice	design engineering	879	5 487	3 909	3 301	976	1 578	22,18	19,85

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

10. Derivative financial instruments

	at 31 December	
	2005	2004
Derivative financial instruments		
Forward contracts		
- transactions which are not suitable as hedges	181	0

Derivative financial instruments are recognised at fair value and the remaining gains or losses from valuation are released to the income statement.

11. Trade and other receivables

Gross trade and other receivables recognised in non-current assets		11 111
Gross trade and other receivables recognised in current assets		112 580
Total receivables		**123 691**
of which:		
- receivables vindicated in court	488	
- trade overdue debtors	17 337	

Receivables vindicated in court include:

- receivables due from supplies, works and services	488

Provision for impairment was created for the whole amount of receivables vindicated in court.

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

11.1 Trade and other receivables recognized in non-current assets

	at 31 December 2005	at 31 December 2004
Non-current trade and other receivables		
of which due from:		
- disposal of property, plant and equipment	2 423	2 301
- bank and guarantee security deposits	7 284	8 010
Non-current trade and other receivables - net	**9 707**	**10 311**
Discount of receivables	1 404	2 704
Non-current trade and other receivables - gross	**11 111**	**13 015**

Recognised bank and guarantee security deposits secure contracts executed by the Company.
Present value of non-current receivables as at balance sheet date is measured thorugh revaluation of future cash flows using the effective interest rate based on WIBOR - 1 Y (Warsaw Interbank Offered Rate).
Non-current receivables at balance sheet date are measured by revaluation of discount amount.

	at 31 December 2005	at 31 December 2004
Movements in trade and other receivables - by titles		
Beginning of period	10 311	9 650
Additions (of which):	8 066	7 015
- bank and guarantee security deposits	6 746	7 015
- discount revaluation	1 300	0
- reversal of balance sheet valuation of bank security deposits	20	
Reductions (of which):	-8 670	-6 354
- reclassification of receivables	-4 181	-2 850
- bank and guarantee security deposits	-4 489	-3 143
- balance sheet valuation of bank security deposits	0	-20
- discount revaluation	0	-341
End of period	**9 707**	**10 311**

Notes to the financial statements (continued)

	at 31 December 2005	at 31 December 2004
Trade and other receivables - by currency		
in Polish currency	9 584	9 635
in foreign currencies (by currencies and translated to PLN)	123	676
in thousands / EUR	32	166
as translated into thousands of PLN	123	676
	9 707	**10 311**

The fair value of trade and other receivables approximates their carrying amounts.
Trade receivables are usually paid within 4 years.

11.2 Trade and other receivables recognized in current assets

	at 31 December 2005	at 31 December 2004
Current trade and other receivables		
of which:		
- due to supplies and services	88 599	96 085
- due to taxes, grants, duties, social and medical security and other benefits	0	547
- other	3 490	728
Total trade and other receivables - net	**92 089**	**97 360**
Impairment of receivables	20 491	25 211
Total trade and other receivables - gross	**112 580**	**122 571**

	at 31 December 2005	at 31 December 2004
Trade and other receivables - by currency		
in Polish currency	107 961	118 246
in foreign currencies (by currencies and translated to PLN)	4 619	4 325
in thousands of EUR	695	211
as translated into thousands of PLN	2 683	861
in thousands of USD	594	1 158
as translated into thousands of PLN	1 936	3 464
	112 580	**122 571**

The fair value of trade and other receivables approximates their carrying amounts.

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

Provisions for impairment of receivables as at 31 December 2005 amount to 20,491 thousand zloty and refer to receivables:

- under arrangement with debtors	2 869	of which interest:	310
- in bankruptcy proceedings	10 608	of which interest:	1 034
- vindicated in court	488	of which interest:	44
- from other overdue debtors	6 526	of which interest:	1 533

of which provisions for impairment of receivables and interest, created in 2005, amount to 4,007 thousand zloty

- for claim under arrangement with debtors	354
- for claim in bankruptcy proceedings	19
- for claim vindicated in court	66
- for bad debts	3 638

Provisions for impairment of receivables as at 31 December 2004 r. amount to 25,211 thousand zloty and refer to receivables:

- under arrangement with debtors	3 316	of which interest:	313
- in bankruptcy proceedings	11 668	of which interest:	1 246
- vindicated in court	502	of which interest:	44
- from other overdue debtors	9 725	of which interest:	2 249

of which provisions for impairment of receivables and interest, created in 2004, amount to 7,461 thousand zloty

- for claim under arrangement with debtors	2 731
- for claim in bankruptcy proceedings	961
- for claim vindicated in court	119
- for bad debts	3 650

	at 31 December	
	2005	**2004**
Impairment of receivables due to supplies and services and other receivables		
impairment of receivables at the beginning of period	25 211	20 873
originating the impairment write off	4 077	7 461
reversal the impairment write off		0
utilisation	8 797	3 123
of which:		
- paid	694	794
- amortisation of receivables	5 639	1 069
- interests paid andamortised	2 464	1 260
impairment of receivables at the end of period	**20 491**	**25 211**

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

11.3 Non-current prepayments and accrued income

	at 31 December	
purchase of the right to perpetual usufruct of land, recognised as operating leasing	**2005**	**2004**
	492	496

12. Inventories

	at 31 December	
	2005	**2004**
materials	2 307	6 766
semi-finished products and work in progress	939	2 204
finished products	253	2 863
	3 499	**11 833**

In 2005 a provision for impairment of inventories of materials was created for the amount of 173 thousand zloty and utilised in the amount of 176 thousand zloty

In 2005 a provision for impairment of inventories of materials was created for the amount of 176 thousand zloty

13. Cash and cash equivalents

	at 31 December	
	2005	**2004**
cash in hand and in banks	7 069	5 842

	at 31 December	
	2005	**2004**
Cash in banks		
overdraft	6 551	4 183
bank deposits	513	1 651
	7 064	**5 834**

Average effective interest rate for bank deposits in 2005 was 2.78% (2004: 4.3%).
Average due time: 1 - 10 days

Notes to the financial statements (continued)

	at 31 December 2005	at 31 December 2004
Cash and cash equivalents - by currency		
in Polish currency	3 384	4 985
in foreign currencies (by currencies and translated to PLN)	3 685	857
in thousands of USD	915	223
as translated into thousands of PLN	2 985	667
in thousands of EUR	181	47
as translated into thousands of PLN	700	190
	7 069	**5 842**

14. Current prepayments and accrued income

	at 31 December 2005	at 31 December 2004
Prepayments		
- expenses concerning future periods (subscriptions, fees concerning next financial year)	261	92

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

15. Share capital

Share capital (structure)

Series / issue	Type of shares	Type of shares preference	Type of shares restrictions	Number of shares	Value of series / issue at par on shares	Terms of acquisition	Date of registration	Dividend rights (since)
A	ordinary bearer shares	unpreferred	none	3 248 750	6 497	against cash	1995-06-07	1995-01-01
B	ordinary bearer shares	unpreferred	none	722 250	1 953	against cash	1995-12-11	1995-01-01
Total number of shares				3 971 000				

Par value (PLN)	2,00
Registered share capital	8 450
Revaluation due to hyperinflation	16 371
	24 821

In 2000 the Company bought back and cancelled 254,037 own shares. Following the regulations in force in 2000 no changes to the court register were entered. Compared to 31 December 2004 number of shares did not change

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

As required by IAS 29, Elektrobudowa S.A. restated share premium of its share capital and reserve capital, as this portion of capital was gained in the conditions of hyperinflation.

Capital was restated as follows:

Applied ratios:

Period	Ratio
Feb -Dec 1992	34,30%
1993	37,60%
1994	29,50%
1995	21,60%
1996	18,50%

Effect of restatement:

	Before reststement	After restatement
Share capital	8 450	24 821
Reserve capital from series B share premium	8 750	10 369

Shareholdings as at 28 February 2006:

		number of shares equal to number of votes	%
1.	Powszechny Zakład Ubezpieczeń S.A.	346 245	8,72
2.	Otwarty Fundusz Emerytalny Nationale Nederlanden Polska	459 828	11,58
3.	Otwarty Fundusz Emerytalny PZU Złota Jesień	322 421	8,12
4.	Generali Otwarty Fundusz Emerytalny	350 000	8,81
5.	Credit Suisse Life &Pensions Otwarty Fundusz Emerytalny	200 000	5,04
6.	Commercial Union Otwarty Fundusz Emerytalny	224 543	5,65
7.	AIG Otwarty Fundusz Emerytalny	211 968	5,34
8.	Other shareholders	1 855 995	46,74

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

16. Reserve capital

	at 31 December 2005	2004
Share premium	8 234	8 234
Created as required by law	2 999	2 999
Created acc. to the Articles, over (minimum) value required by law	39 772	38 756
Other (by type)	7 181	7 181
- transferred from reserve capital	5 562	5 562
- restatement due to hyperinflation	1 619	1 619
	58 186	**57 170**

At 31 December 2005 the Company owns capital which can be distributed. It is the profit from the financial year 2005 in the amount of 8,735 thousand zloty.

17. Trade and other payables

17.1 Non-current trade and other payables

	at 31 December 2005	2004
Deferred income tax payables	4 786	2 095
Pension benefits	1 837	1 229
Trade and other payables	1 889	1 144
	8 512	**4 468**

Notes to the financial statements (continued)

	at 31 December 2005	at 31 December 2004
Non-current trade payables - by titles		
retentions from subcontractors	1 889	1 144

Present value of non-current payables as at balance sheet date is measured through amortised cost using the effective interest rate based on WIBOR - 1 Y (Warsaw Interbank Offered Rate). Fair value of those payables approximate their carrying amounts.

Trade and other payables are paid within 5 years at average.

	at 31 December 2005	at 31 December 2004
Non-current trade payables - by currency		
in Polish currency	1 794	1 115
in foreign currencies (by currencies and translated to PLN)	95	29
in thousands of EUR	25	7
as translated to PLN	95	29
	1 889	**1 144**

17.2 Current trade and other payables

	at 31 December 2005	at 31 December 2004
Trade payables	44 461	50 000
Prepayments from customers	712	368
Tax, duties, insurance and other benefits	12 378	12 303
Remunerations	2 137	2 118
Other (by titles)	1 191	2 715
- acquisition of fixed assets	865	1 659
- payables to employees	38	36
- leasing commitments	51	97
- deductions from payroll	214	208
- other	23	715
	60 879	**67 504**

Notes to the financial statements (continued)

Tax and social security	at 31 December	
	2005	**2004**
- personal income tax	588	565
- corporate income tax	1 181	1 366
- Value Added Tax	8 740	8 796
- social security	2 988	2 883
- PFRON	62	59
	13 559	13 669

Fair value of trade and other payables approximates their carrying amounts.

	at 31 December	
	2005	**2004**
Current trade payables - by currency		
in in Polish currency	43 146	47 395
in in foreign currencies (by currencies and translated to PLN)	1 315	2 605
in in thousands of EUR	338	639
as as translated into thousands of PLN	1 305	2 605
in in thousands of USD	3	0
as as translated into thousands of PLN	10	0
	44 461	**50 000**

Notes to the financial statements (continued)

18. Loans and borrowing

Current borrowings as at 31 December 2004

Lender	Registered office	Amount of loan as per contract				Amount to be repaid				Effective interest rate	Maturity	Security
		in PLN'000	in foreign currency	unit	currency	in PLN'000	in foreign currency	unit	currency			
BRE BANK S.A. overdraft	Warszwa	3 000		thousand	PLN			thousand	PLN	WIBOR 1M + 1,50%	30 September 2006	1 blank bill - debt assignment enforeceable up to 3,600,000 PLN
BANK HANDLOWY ovedraft	Warszwa	6 130		thousand	PLN	3 575		thousand	PLN	WIBOR T/N + 0,60%	renewable every 7 days	debt assignment enforceable up to PLN 7,356,000.00, mortgage- secured, incl. policy assignment up to PLN 2,100,000.00
ING BANK ŚLĄSKI ovedraft	Katowice	8 000		thousand	PLN	4 876		thousand	PLN	WIBOR 1M + 0,70%	30 May 2006	mortgage- secured, incl. policy assignment up to PLN 2,000,000.00, enforcement title up to PLN 12,000,000.00 debt assignment
ING BANK ŚLĄSKI foreign currency loan	Katowice		410	thousand	EUR			thousand	EUR	WIBOR 1M + 1,50%	10 July 2006	enforcement title up to EUR 876,000.00; cash security up to EUR 136,750.00; debt assignment
BANK BPH S.A. ovedraft	Kraków	8 000		thousand	PLN			thousand	PLN	WIBOR 1M + 0,80%	19 April 2006	enforcement title up to PLN 35,880,320.00, debt assignment, 6 blank bills, motgage secured incl. policy assignment up to PLN 8,516,615.00
BANK BPH S.A.* issuance of debt securities	Kraków	30 000		thousand	PLN	7 964		thousand	PLN	WIBOR 1M + 0,65%	5 January 2006	
PKO BP operating loan	Warszwa	5 000		thousand	PLN			thousand	PLN	WIBOR 1M + 1,00%	19 May 2006	mortgage secured, incl. Policy assignment up to PLN 6,300,000.00, enforcement title up to PLN 10,000,000.00, debt assignement
PKO BP ovedraft	Warszwa	5 000		thousand	PLN			thousand	PLN	WIBOR 1M + 1,00%	19 May 2006	blank promissory note, enforcement title up to PLN 10,000,000.00, debt assignment
						16 415						

* The securities were issued in order to diversify the sources of financing.
At 31 December 2005 the total amount of debt assignment is 78,531 thousand zloty.

Notes to the financial statements (continued)

Current borrowings as at 31 December 2005

Lender	Registered office	Amount of loan as per contract				Amount to be repaid				Effective interest rate	Maturity	Security
		in PLN'000	in currency	unit	currency	in PLN'000	in currency	unit	currency			
BRE BANK S.A. ovedraft	Warszwa	3 000		thousand	PLN	366		thousand	PLN	WIBOR 1M+1,5%	30 September 200€	1 blank bill, debt assignment up to PLN 3,600,000.00
BANK HANDLOWY ovedraft	Warszwa	6 130		thousand	PLN	3 466		thousand	PLN	WIBOR T/N+0,6%	renewable every 7 days	debt assignment up to PLN 10,800,000.00
ING BANK ŚLĄSKI ovedraft	Katowice	11 000		thousand	PLN	3 255		thousand	PLN	WIBOR 1M+0,7%	1June 2005	debt assignment up to PLN 18,000,000.00; mortgaged by real property in Mikolow, policy assignment up to PLN 3,000,000.00.
BANK BPH S.A. ovedraft	Kraków	8 000		thousand	PLN	4 396		thousand	PLN	WIBOR 1M+0,8%	20 April 2005	5 blank bills, debt assignment up to PLN 8,000,000.00; mortgage secured up to PLN 7,999,424.00 with policy assignment
PKO BP ovedraft		10 000		thousand	PLN	10 000		thousand	PLN	WIBOR 1M+1,0%	21 May 2005	1 blank promissory note debt assignment up to PLN 20,000,000.00; mortgaged by real property in Katowice up to PLN 12,800,000.00, accounts receivable insurance policy assignment
						21 483						

Effective interest rates of borrowings approximate nominal rates; fair value of borrowings (for their short-term nature) approximate their carrying amounts.

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

19. Deferred income tax

	at 31 December	
	2005	**2004**
Deferred income tax recognised in the income statement		
reductions (additions) due to origination and reversal of temporary differences	949	464

19.1 Deferred income tax assets

	at 31 December	
	2005	**2004**
Movement in deferred tax assets		
Deferred tax assets at the beginning of period, of which:	3 486	4 570
Additions - due to negative temporary differences credited to the income statement:	4 375	3 377
- revaluation of assets	457	635
- provisions for unused holidays	117	50
- interests charged on receivables	3	26
- amounts due from construction contracts customers	2 409	2 330
- provisions for pension and other benefits	121	0
- provisions for future commitments	1 232	184
- exchange differences at balance sheet date	36	152
Reductions - due to negative temporary differences charged to the income statement:	-2 634	-4 461
- charged to the financial result in the period	-421	-1 903
- provisions for unused holidays	-50	-34
- provisions for pension and other benefits	-10	-39
- interests charged on receivables	-29	0
- amounts due from construction contracts customers	-1 595	-2 090
- provisions for future commitments	-136	-362
- exchange differences at balance sheet date	-146	-22
- discount of receivables	-247	-11
The movement credited / charged to the income statement	1 741	-1 090
Deferred tax assets at the end of period, of which:	**5 227**	**3 486**
credited to the income statement	5 227	3 486

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

	at 31 December 2004	
	within 12 months	**over 12 months**
Deferred tax assets in the period		
of which:		
- interests on liabilities	8	0
- balance sheet valuation of exchange differences	35	0
- revaluation of assets	609	203
- provisions for pension benefits	3	349
- accounts payable due to construction contracts	2 409	0
- provisions for bonuses	401	0
- provisions for unused holidays	117	0
- provisions for not paid salaries and social security	656	0
- provisions for future commitments	170	0
- due to discount of non-current receivables	0	267
	4 408	**819**

No deferred tax asset has been originated on the differences, which in the opinion of the Company cannot reduce the tax base in future periods. The differences amount to PLN 2,435 (taxable amount).

	at 31 December 2005	
	within 12 months	**over 12 months**
Deferred tax assets in the period		
of which:		
- interests on liabilities	42	0
- balance sheet valuation of exchange differences	146	0
- revaluation of assets	596	180
- provisions for pension benefits	7	233
- accounts payable due to construction contracts	1 595	0
- provisions for bonuses	69	0
- provisions for unused holidays	50	0
- provisions for not paid salaries and social security	8	0
- provisions for future commitments	46	0
- due to discount of non-current receivables	0	514
	2 559	**927**

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

19.2 Provision for deferred income tax

	at 31 December	
	2005	**2004**
Movement in provision for deferred income tax		
Provision for deferred income tax at the beginning of period - reflected in the income statement	2 095	2 716
Additions - reflected in the income statement for the period, due to positive temporary differences, of which:	4 040	1 308
- amounts due fro construction contracts	3 924	1 298
- FORWARD contract valuation	34	
- discount of liabilities	70	
- balance sheet valuation of exchange differences	12	10
Reductions - reflected in the income statement for the period, due to positive temporary differences, of which:	-1 349	-1 929
- interest charged on overdue debt	0	-832
- reversal of investment relief provision	-175	-244
- balance sheet valuation of exchange differences	-10	0
- amounts due from construction contracts	-1 164	-840
- court fees paid	0	-13
Total provisions for deferred income tax at the end of period - reflected in the income statement	**4 786**	**2 095**

	at 31 December 2005	
	within 12 months	**over 12 months**
Provision for deferred income tax in the period, of which:		
- amounts due from construction contracts	3 924	0
- FORWARD contract valuation	34	
- discount of liabilities valuation	0	70
- exchange differences	12	0
- investment relief	175	571
	4 145	**641**

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

	at 31 December 2005	
	within 12 months	over 12 months
Provision for deferred income tax in the period, of which:		
- amounts due from construction contracts	1 164	0
- exchange differences	10	0
- investment relief	175	746
	1 349	**746**

20. Provision for liabilities and other charges

	at 31 December	
	2005	2004
Movement in non-current provisions for pension benefits		
beginning of period	1 229	1 277
Additions (due to)	639	
- creating the provision (actuarial valuation)	639	0
Utilisation (due to)	-31	-40
- payment of pension benefits	-31	-40
Reversal (due to)	0	-8
- actuarial valuation	0	-8
End of period	**1 837**	**1 229**

Main actuarial assumptions adopted for establishing pension benefits are following:

	at 31 December	
	2005	2004
discount rate	4,7%	6,3%
forecasted inflation	2,5%	2,5%
forecasted increase in salaries	3,5%	3,5%
mobility rate	9,8%	9,5%

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

	at 31 December 2005	at 31 December 2004
Movement in current provisions		
beginning of period	36	159
Additions, of which:	620	16
- actuarial valuation	0	16
- provision for correction works	620	0
Utilisation (due to)	-22	-10
- payment of pension benefits	-22	-10
Reversal (due to actuarial valuation)	0	-129
- change in the remuneration system (since 1 January 2004 jubilee rewards are not paid)	0	-129
End of period	**634**	**36**
of which:		
current provisions for correction works	620	0
current provisions for retirement benefits	14	36

The company creates provisions for future payables which maturities or amounts are not certain. Particularly, a provision is recognised for correction works and warranty repairs, as the contracts for the supply of electrical installation services and equipment require trade guarantees provided for the customers. Generally, a provision of 0.5% of contract price is made for warranty repairs.
Provisions for retirement benefits are estimated by an actuary

21. Accrued expenses

	at 31 December 2005	at 31 December 2004
payments for unused holidays	617	263
annual bonuses	2 112	362
services	200	201
auditing the financial statements	75	42
grant received	220	0
	3 224	**868**

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

22. Sales revenues

	year ended 31 December	
	2005	**2004**
Sales of products, goods and materials		
construction and installation services	238 148	195 634
electrotechnical products	84 048	72 698
other services	8 102	9 599
materials sold	4 497	3 372
	334 795	**281 303**

	year ended 31 December	
	2005	**2004**
Sales of products, goods and materials		
domestic	311 254	259 360
export	23 541	21 943
	334 795	**281 303**

Export sales are carried out by the Power Distribution and Power Generation segments

	year ended 31 December	
	2005	**2004**
Sales of construction and installation services	238 148	195 634
movement in revenues calculated according to accual basis	-10 242	-1 156
discount of non-current receivalbes	199	
realised positivie differences	-21	
invoiced sales	228 084	194 478
costs incurred	226 542	184 265
recognised profit net of losses	1 542	10 213

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

23. Construction contracts

23.1 Amounts due from customers for contract work

	at 31 December	
	2005	**2004**
Accounts receivable due to construction contracts	20 650	6 127

The Company presents as an asset the gross amount due from customers for contract work for all contracts in progress for which the aggregate amount of costs incurred and recognized profits (less recognized losses) exceeds progress billings, except retentions which are included:
- in non-current assets within “trade and other receivables”,
- in current assets within “trade and other receivables”

The Management uses a contract budget, the stage of completion and ability to continue the works to estimate the outcome of a contract.

23.2 Amounts due to customers for contract work

	at 31 December	
	2005	**2004**
Accounts payable due to construction contracts	12 677	8 396

The Company presents as a liability the gross amount due to customers for contract work for all contracts in Progress for which Progress billings exceed costs incurred plus recognised profits (less recognised losses).

The Management uses a contract budget, the stage of completion and ability to continue the works to estimate the outcome of a contract.

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

24. Expenses by nature

	year ended 31 December	
	2005	**2004**
Expenses by nature		
Depreciation and amortisation	4 928	5 718
Materials and electricity	157 014	135 682
Third party services	88 379	64 325
Taxes and charges	2 104	1 927
Salaries and wages	42 108	40 986
Social security and benefits	11 308	10 325
Other expenses by type, of which:	6 597	5 284
representative and advertising expenses	984	1 036
business travels	2 774	2 139
property and personal insurance	1 114	647
other	1 725	1 462
Total expenses by nature	**312 438**	**264 247**
Movement in inventories, products and deferred expenses	6 633	-3 488
Cost of work and services for own needs (negative value)	-1 151	-397
Distribution expenses (negative value)	-1 785	-1 311
General administrative expenses (negative value)	-7 527	-7 900
Cost of products sold	4 225	3 275
	312 833	**254 426**

25. Other gains (losses) – net

	year ended 31 December	
	2005	**2004**
Other gains (losses) - net		
Proceeds from disposal of non-finance non-current assets	141	278
Provisions for pension and similar benefits	-639	121
Provisions for debt collection expenses	0	581
Donations	-87	-128
Impairment	-1 629	-4 587
Interest charged and received on overdue payments	613	331
Impairment of receivables	-170	-1 506
Unjustified indirect costs	-162	-490
Payments other than remuneration	-152	-372
Exchange differences	565	-596
FORWARD contract valuation	181	0
Commission and fees	-563	-628
Legal charges	-263	-130
Revenue from secured foreign currency transactions	110	0
Other	333	-392
	-1 722	**-7 518**

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

26. Finance income (expenses) – net

	year ended 31 December	
	2005	**2004**
Finance gains (costs) - net		
Dividends and profit sharing	114	0
Interest on borrowings	-1 663	-1 920
Discount of receivables	1 498	-341
Other	-12	-20
	-63	**-2 281**

27. Income tax

	at 31 December	
	2005	**2004**
Current income tax		
Profit (loss) before taxation	10 865	7 867
2. Differences between profit (loss) before taxation and income tax basis (by titles)	-4 649	3 358
a) expenses and losses, which in accordance with the regulations are permanently not deductible for tax purposes	2 782	4 425
b) expenses and losses, which in accordance with the regulations are temporarily not deductible for tax purposes	-7 431	-1 067
- calculated and not paid interests on liabilities	-18	-89
- provision for debt collection costs	0	-581
- provisions for unused holidays	354	83
- debt revaluation write-off	-2 234	-792
- provision on settlement of long-term contracts	-10 242	-1 156
- foreign exchange differences due to balance-sheet valuation	-590	596
- - tangible assets depreciation due to investment relief for 1995-1999	922	1 281
- unpaid remunerations	2 095	-56
- provision for auditing the accounts	33	-4
- provision for annual bonuses	1 750	-258
- provision for unnecessary or difficult-to-sell inventories	-37	79
- provision for correction works	620	0
- provision for pension benefits and similar	586	-172
- National Security benefits payable by the taxpayer	1 314	0
- discount of receivables	-1 300	340
- discount of liabilities	-369	0
- reversal of share revaluation write-down	0	-339
- prior years' balance sheet amortisation	-5	0
- depreciation of tangible fixed assets revaluation to fair value	127	299
- interest on overdue debt	-256	-298
- FORWARD contract valuation	-181	0
Tax base	6 216	11 225
Income tax	**1 181**	**2 133**

Current income tax recognised in tax declaration for the period, of which:		
- charged to the income statement	1 181	2 133
Deferred income tax charged to the income statement	949	464
	2 130	**2 597**

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

Profit before taxation	10 865	7 867
Tax calculated according to 19% tax rate	2 064	1 495
Expenses not deductible for tax purposes	529	841
Tax losses for which no deferred income tax asset was recognised		0
Movement in other temporary differences of which no deferred income tax assets were recognised	-463	261
Income tax	**2 130**	**2 597**

Tax authorities carried out a tax inspection for the years 1997 and 1998: no essential tax corrections were requested.

Tax authorities may inspect the books and tax documents of the Company within 5 years after the year in which tax declarations were submitted and charge the Company with additional tax including interest and penalties. In the opinion of the Management Board there are no circumstances indicating the possibility of any related essential liabilities to arise.

28. Earnings per share

average market price of shares in 2005	29,60
option exercise price	21,10

	Earnings	**Shares**	**Earnings per share**
net profit for the period (in PLN)	8 735 024		
weighted average number of shares		3 971 000	
earnings per share			2,20
weighted average number of shares (option plan)		249 096	
weighted average number of shares to be issued at average market price		-177 565	
diluted earnings per share	8 735 024	4 042 531	2,16

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

Calculation of diluted earnings per ordinary share for the year ended 31 December 2004 was based on:

average market price of shares in 2004	25,92
option exercise price	21,10

	Earnings	Shares	Earnings per share
net profit for the period (in PLN)	5 269 837		
weighted average number of shares		3 971 000	
earnings per share			1,33
weighted average number of shares (option plan)		249 096	
weighted average number of shares to be issued at average market price		-202 775	
diluted earnings per share	5 269 837	4 017 321	1,31

29. Dividend per share

In 2004 ELEKTROBUDOWA SA paid the dividend for 2003 of 50 groszy (0.5 zloty) per share; dividend for 2004 paid in 2005 was 1 zloty per share.

The Management Board of Elektrobudowa SA proposes to pay dividend for 2005 in the amount of 1.50 zloty per share.

30. Cash flows

Cash recognized in the cash flow statement means monetary assets in the form of domestic currency and foreign currencies.

	at 31 December	
	2005	2004
Cash structure for cash flow statement		
Cash at bank and in hand	7 069	5 842

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

Division of activities as in the cash flow statement.

Operating activities cover business operations defined in the Company Articles which is performed with the objective to generate revenues from sales. They also include other operations (except investing and financial activities) which effect the income.

Investing activities cover purchases or disposals of property, plant and equipment or current financial assets and all cash expenses and gains related to them.

Financing activities cover all operations related to gaining or losing sources of finance (movements in volume and relations between equity and borrowed capital) all cash expenses and gains related to them.

	year ended 31 December	
	2005	**2004**
Movement in trade and other payables		
balance sheet change in trade and other payables	-599	12 059
blanace sheet change in payables due to bank loans and issuance of debt securities	5 068	3 920
blanace sheet change in payables due to construction contracts	-4 281	-1 263
paid income tax	1 366	1 831
changes in deferred tax payables	-2 691	620
interest on borrowings not paid	-39	-65
change in accruals	-2 356	762
payment for shares in KRUELTA	0	340
change in net investing payables	834	-1 009
repayment of lease commitments	43	-63
	-2 655	**17 132**

	at 31 December	
	2005	**2004**
Other adjustments		
tangible fixed assets made in the company	-248	-20
finished development works	19	-568
FORWARD contract valuation	-181	0
	-410	**-588**

Notes to the financial statements (continued)

31. Information about the Company's Boards

Composition of the Company's Boards

Supervisory Board

Dariusz Mańko	**-**	**Chairman**
Michał Wnorowski	**-**	**Vice-chairman**
Michał Boni	**-**	**Board member**
Arkadiusz Julke	**-**	**Board member**
Roman Zalewski	**-**	**Board member**
Dariusz Wojda	**-**	**Board member**

Management Board

Jacek Faltynowicz	**-**	**President**
Jarosław Tomaszewski	**-**	**Board member**
Ariusz Bober	**-**	**Board member**
Tomasz Jaźwiński	**-**	**Board member**
Stanisław Rak	**-**	**Board member**

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

Aggregate amount of remuneration (including performance related bonus) and rewards (in cash and in kind), paid to the members of the Management Board and the Supervisory Board

Members of the Management Board and the Supervisory Board do not receive benefits other than short-term employee benefits.

Key management compensation paid or due in 2005 and 2004 was:

	year ended 31 December 2005			year ended 31 December 2004		
	Basic salary paid	**Bonuses**	**Total payments**	**Basic salary**	**Bonuses paid for 2004**	**Total payments**
Management Board	**1 556**	**0**	**1 556**	**1 540**	**413**	**1 953**
Faltynowicz Jacek	400		400	400	109	509
Tomaszewski Jarosław	357		357	360	68	428
Bober Arkadiusz	259		259	240	128	368
Jaźwiński Tomasz	300		300	300	63	363
Rak Stanisław	240		240	240	45	285
Supervisory Board	**300**	**0**	**300**	**308**	**0**	**308**
Boni Michał	46		46	45		45
Julke Arkadiusz	46		46	45		45
Mańko Dariusz	61		61	49		49
Sołdek Andrzej	0		0	20		20
Stulgis Grzegorz	0		0	27		27
Wnorowski Michał	55		55	53		53
Wojda Dariusz	46		46	24		24
Zalewski Roman	46		46	45		45

Provision in the amount of 860 thousand zloty for bonuses to be paid to the Management Board members of Elektrobudowa SA was created in 2005 costs.
Members of the Management Board participate in the programme of issuance of bonds convertible to series C shares. In 2005 they paid and were allotted 212 000 bonds. Issue price of series C shares was established at PLN 21.10.
Market price of Elektrobudowa’s shares was PLN 36.80 at 31 December 2005 (PLN 26.70 at 31 December 2004).

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

Disclosures on the amount of advances, loans, borrowings and guarantees extended to the members of the Boards and not yet repaid

As at 31 December 2005 the Company did not extend any guarantees or borrowings to the members of the Boards.

32. Exchange rates

Polish zloty exchange rate in the periods covered by the financial statements and the comparative financial figures

In the financial statements of Elektrobudowa S A for the year ended 31 December 2005 profit and loss items in the table "Selected Financial Data" have been translated according to the rate being the arithmetic mean of average EURO rates announced by the National Bank of Poland at the end of each month of 2005, i.e. 4.0233.

Average EURO rates over 2005

Date of announcement	EURO rate	Table
31.01.2005	4.0503	21/A/NBP/2005
28.02.2005	3.9119	41/A/NBP/2005
31.03.2005	4.0837	63/A/NBP/2005
29.04.2005	4.2756	83/A/NBP/2005
31.05.2005	4.1212	103/A/NBP/2005
30.06.2005	4.0401	125/A/NBP/2005
29.07.2005	4.0758	146/A/NBP/2005
31.08.2005	4.0495	168/A/NBP/2005
30.09.2005	3.9166	190/A/NBP/2005
31.10.2005	3.9893	211/A/NBP/2005
30.11.2005	3.9053	231/A/NBP/2005
30.12.2005	3.8598	252/A/NBP/2005
01.01 - 31.12.2005	**48.2791 : 12 = 4.0233**	

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

33. Related party transactions

In 2005 both ELEKTROBUDOWA SA and its subsidiaries entered only into typical, routine transactions made on an arm's length basis between the related parties and resulting from day-to-day business operations of the Company.
Transactions carried out by Elektrobudowa SA with related parties amounted to 18,502 thousand zlotys, of which:

- sales of products to Kruelta	18.416 thousand zlotys
- sales of products to Konip	86 thousand zlotys

Year-end balances:	512 thousand zlotys
of which:	
payables of Kruelta to Elektrobudowa SA	448 thousand zlotys
payables of Elektrobudowy SA to Konip	64 thousand zlotys

34. Financial instruments

Financial instrument information
Receivables
Proceeds from interest (charge and realised) on receivables amount to 773 thousand zloty in 2005 (in 2004: 814 thousand zloty).

Available-for-sale financial assets
Carrying amount of interest in BIPROHUT at 31 December 2005 and at 31 December 2004 was 879 thousand zloty.

Derivative financial instruments

In order to reduce the risk of drop in exchange rate which could have and adverse effect on the level of selling prices, the Company used forward contracts as cash flow hedges. Proceeds from hedged transactions in 2005 amounted to 110 thousand zloty and the valuation of contract as at 31 December 2005 charged to other net income was 181 thousand zloty.

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

35. Investments

	at 31 December 2005	at 31 December 2004
Investments at the beginning of period	1 482	
Expenditure in the reporting period	5 595	4 589
of which:		
- cost of own manufacture	248	39
- cost of third party works	2 244	2 082
- cost of purchased machines, equipment and	3 103	2 468
Investments recognised in fixed tangible assets	5 893	3 183
of which:		
- leasing		128
Investments at the end of period	**1 184**	**1 482**
of which:		
investments related to tangible fixed assets	426	1463
investments related to intangible assets	758	19

36. Contingencies, contractual and other off-balance sheet commitments

a) guarantees

As at 31 December 2005 ELEKTROBUDOWA SA provided performance bonds and warranty bonds through:

T.U ALLIANZ POLSKA S.A.	**PLN**	**14 685 359.26**
BPH S.A.	**PLN**	**3 600 726.29**
BRE Bank S.A.	**PLN**	**6 993 813.27**
Bank Handlowy S.A.	**PLN**	**483 595.12**
Gerling Towarzystwo Ubezpieczeniowe S.A.	**PLN**	**7 554 842.74**
ERGO HESTIA S.A.	**PLN**	**1 167 008.15**
ING Bank Śląski S.A.	**PLN**	**3 265 238.57**
TOTAL	**PLN**	**37 750 583.40**

b) bills and promissory notes

As at 31 December 2005 ELEKTROBUDOWA SA issued promissory notes for the total amount of PLN **7,182,367.32**
and also:

Notes to the financial statements (continued)

1. 16 BILLS OF EXCHANGE ISSUED IN FAVOUR OF BRE BANK S.A. O/KATOWICE AS SECURITY FOR THE BANK GUARANTEES
2. 5 BILLS OF EXCHANGE WITH "WITHOUT PROTEST" RESTRICTION AS SECURITY FOR RECOURSE CLAIM OF ERGO HESTIA S.A.
3. 10 BLANK BILLS OF EXCHANGE AS SECURITY FOR INSURANCE GUARANTEE CLAIM OF T.U. ALLIANZ POLSKA S.A.
4. 5 BLANK BILLS OF EXCHANGE AS SECURITY FOR THE LOAN FROM BANK BPH S.A.
5. 5 BLANK BILLS OF EXCHANGE "WITHOUT PROTEST" IN FAVOUR OF GERLING POLSKA T.U. S.A.AS SECURITY FOR BANK GUARANTEES
6. 1 BLANK BILL OF EXCHANGE AS SECURITY FOR THE CREDIT FROM BANK PKO BP S.A.

c) Investment relief

Following the Regulation of the Council of Ministers of 25 January 1994 on deducting investment expenditure from the income and on income tax reductions, as well as the corporate income tax law of 15 February 1992 (as amended), in 1994-1999 the company exercised its right to relief in the amount of PLN 24,302 thousand.

In 1995-2000 the company made a deduction of investment premium, payable on capital expenditure, in the amount of PLN 10,628 thousand.

The relief is of contingent nature. Provisions of the above mentioned law stipulate that the right to investment relief or investment premium may be lost if one of the following circumstances occurs within 3 years:

a) a taxpayer has fallen into arrears in payment of taxes which are income for the Budget or of national insurance contributions, which arrears, separately for each title (of which separately for each kind of tax) are greater than 3 % of amounts due for these years,
b) taxpayers will transfer – in any form – ownership of those property items which were subject to income deductions or tax reductions; it does not apply, however, to transfer of ownership due to change of legal form, merger or division of business entities,
c) circumstances ceased to exist which had allowed for recognising the items of fixed tangible assets, used against payment on the grounds of lease, rent or similar agreements, in taxpayer's property,
d) a taxpayer is forced to go into liquidation or his bankruptcy has been declared,
e) a taxpayer has received any kind of return of investment expenditure.

The act on amendment to a law on corporate income tax of 20 November 1998 provides that in the appraisal of a loss of the right to deductions for reasons specified in a) above it is assumed that the loss of the right does not occur if the taxpayer submits a correction of the tax declaration and pays the arrears together with due interest in the time provided by the act or within 14 days since the receipt of decision issued by the body of first instance specifying the tax obligations.

As at 31 December 2005 the company fulfilled all requirements to enjoy the right to the described deductions.

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

d) Rental commitments

Current rental agreements have been concluded for 2 years.
Total agreed rent in this period will amount to 1,962 thousand zloty.

37. Events after the balance sheet date

On 5 January 2006 the Company repaid the second tranche of debt securities issue in the amount of 7,964 thousand zloty.

Further issues took place:

5 January 2006	amount:	4,975 thousand zloty	(repayment: 8 February 2006)
8 February 2006	amount:	4,981 thousand zloty	(repayment: 8 March 2006)
8 March 2006	amount:	3,981 thousand zloty	(repayment: 8 April 2006)

38. Employment

Description	average number of employees in 2005	average number of employees in 2004
Total	1 158	1 093
of which:		
Manual workers	708	672
Other employees	444	415
Persons on child care and unpaid leaves	6	6

39. Estimates and judgments by the management during the process of implementation and application of IFRS.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Significant estimates and assumptions are discussed below.

(all amounts in PLN thousands unless otherwise stated)

Notes to the financial statements (continued)

In the course of introducing the IFRS, in the situation when the IFRS permit two accounting treatments for like transactions and events, the Management Board decided to select and apply the benchmark treatment, except valuation of some property, plant and equipment items which were valued at fair value and that value was used as the assumed cost established for the valuation date.

Judgments by management were applied in estimating the effect of hyperinflation on the amount of share capital and reserves (details in Note 15), in estimating the amount of provisions for warranty works (details in Note 21) and in estimating receivables and payables due to non-current construction contracts (details in Note 23).

40. Additional notes

Information on implementation of the resolution 100/III/2002 of the Supervisory Board

To implement the resolution 100/III/2002 of the Supervisory Board dated 23 May 2002, in July 2005 the Management Board adopted a resolution to grant to the selected group of Elektrobudowa's employees the convertible bonds with the right to subscribe for 249,096 series C shares for the price of 21.10 zlotys per share. The right will be exercised between 1 and 30 September 2006. There are no other conditions required for granting the shares.

Distribution of profit for 2004.

Following the Resolution No. 15 of the Supervisory Board on 27 April 2005 the net profit of Elektrobudowa SA for 2004 in the amount of PLN 5,016,025.05 was distributed in the following way:

a) dividend payment	PLN	3,971,000.00
b) servicing of dividend	PLN	29,000.00
c) reserve capital	PLN	1,016,025.05

Material error adjustments

No adjustments of material fault in the financial statements for prior periods were made in 2005. No such faults occurred.

Legal claims against Elektrobudowa SA

There are no essential legal claims against Elektrobudowa SA..
In the opinion of the Management Board there are no circumstances indicating any substantial obligations to arise.

Notes to the financial statements (continued)

Amounts due to the Budget or local government for obtaining the right to buildings or structures.

As at 31 December 2005 the Company had not had any debt towards the Budget or local government due to obtaining the right to buildings or structures.

Significant events from previous years disclosed in the financial statements for the current period

At 31 December 2005 there were no significant events concerning prior years, which should be disclosed in the 2005 report.

Investment expenditure and off-balance sheet commitments due to the acquisition of fixed tangible assets

The Company's investment expenditure in 2005 amounted to 5,595 thousand zlotys.

Notes to the financial statements (continued)

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

Forename name and surname	Post / Function	Date	Signature
Jacek Faltynowicz	President	27.03.2006	
Jarosław Tomaszewski	Board Member	27.03.2006	
Ariusz Bober	Board Member	27.03.2006	
Stanisław Rak	Board Member	27.03.2006	
Tomasz Jaźwiński	Board Member	27.03.2006	

SIGNATURE OF THE PERSON RESPONSIBLE FOR MAINTAINING THE COMPANY ACCOUNTS

Forename name and surname	Post / Function	Date	Signature
Danuta Tomaszewska	Chief Accountant	27.03.2006	

DIRECTOR'S REPORT

ELEKTROBUDOWA SA

YEAR ENDED 31 DECEMBER 2005

1. Current and anticipated financial situation. Basic economic and financial figures.

1.1. Income from sales. Basic products and services.

In 2005 income from the sale of products, services and materials of ELEKTROBUDOWA SA amounted to 334,795 thousand PLN.

Income from basic activity of the Company such as performance of building and assembly services in the field of electric installation works formed the biggest share in sales. These sales amounted to 238,148 thousand PLN and made up 71.1 % of income from sales.

In 2005 the Company noted a relatively high increase of export sales. These sales amounted to 23,541 thousand PLN and were 7.2% higher as compared with export sales achieved by the Company in 2004. Increased export occurred mainly in the area of sales of electrotechnical products of the Company.

External sale of electrotechnical products in 2005 amounted to 84,048 thousand PLN, whereas its share in Company income was 25.1%.

The table below presents the structure of net income from the sale of products, goods and materials in 2005 and 2004.

	2005		2004		Change
	thousand PLN	%	thousand PLN	%	thousand PLN
Sales	**334,795**	**100.0**	**281,303**	**100.0**	**+ 53,492**
Building and assembly services	238,148	71.1	195,634	69.6	+ 42,514
Electrotechnical products	84,048	25.1	72,698	25.8	+ 11,350
Other services	8,102	2.5	9,599	3.4	- 1,497
Materials and goods	4,497	1.3	3,372	1.2	+ 1,125

ELEKTROBUDOWA SA specializes in the production of equipment used for transmission and distribution of electric energy; its share in return from sales is continuously growing. Being the main supplier of medium-voltage switchgear on the Polish market the Company is fulfilling its main strategic objective.

In 2005 the Company sold industrial products for the sum of 121,695 thousand PLN. From this sum 37,647 thousand PLN falls to assembly units, whereas direct (external) sales reached the value of 84,048 thousand PLN.

Production quantities of the most import products.

Type of product	***Unit of measure***	***Quantity***	
		2005	***2004***
Medium voltage switchgear	Cubicle	1,874	1,421
Low voltage switchgear	Segment	700	983
Busducts	M	842	920
Cable constructions	Ton	106	99
Container stations	Set	86	122

Value of manufactured products.

Type of product	***2005***		***2004***	
	Value (thousand PLN)	*Structure (%)*	*Value (thousand PLN)*	*Structure (%)*
Medium voltage switchgear	62,149	51.1	41,755	35.1
Low voltage switchgear	10,816	8.9	20,749	17.5
Busducts)	4,356	3.5	6,452	5.4
Cable constructions	645	0.5	589	0.5
Container stations	38,657	31.8	43,437	36.5
Other products	5,072	4.2	5,985	5.0
TOTAL	**121,695**	**100.0**	**118,967**	**100.0**

1.2. Financial result and basic factors as well as untypical events affecting its value.

After several years of crisis the building industry, and in particular building and assembly production, noted a considerable growth in sales in 2005. There is a big chance that this tendency will continue during the years to come.

Just recently GUS (Chief Statistical Office) published information that in the fourth quarter of 2005 GNP increased by 4.2% as compared with the previous year. Nevertheless, more important than the rate of growth itself, is the fact that enterprise investments in 2005 had the biggest growth rate in years.
One can expect a considerable growth of industrial and infrastructural investments in the nearest future, which in consequence should result in considerable increase in demand for services of building companies.

In 2005 income from the sale of Elektrobudowa SA products, goods and materials was higher than in 2004 by 53.5 million PLN, which means an increase of 19.0%. Increased income from sales is, among other things, the effect of performing such contracts as: modernization of GPZ-1 and GPZ-2 in PKN ORLEN, commercial and service buildings in Tczew and Bolesławiec, GPZ Bogumiłów and complex supplies, assembly and star-up for the thermal-electric power station Żerań .

The main items of the Income Statement for 2005 together with growth dynamics in relation to the year 2004 are as follows:

	2005		2004		**Change** (+ increase - reduction)	
	thousand PLN	*%*	***thousand PLN***	*%*	thousand PLN	%
Net income from sale of products goods and materials	334,795	100.0	281,303	100.0	+ 53,492	+ 19.0
Cost of sold products, goods and materials	312,833	93.4	254,426	90.4	+ 58,407	+ 23.0
Cost of sale	1,785	0.5	1,311	0.5	+ 474	+ 36.2
Overheads	7.527	2.2	7,900	2.8	- 373	- 4.7
Other net profit (loss)	- 1,722	- 0.5	- 7,518	- 2.7	-5,796	- 77.1
Profit from operating activity	10,928	3.3	10,148	3.6	+ 780	+ 7.7
Gross profit	10,865	3.2	7,867	2.8	+ 2,998	+ 38.1
Net profit	8,735	2.6	5,270	1.9	+ 3,465	+ 65.7

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n 2005 the Company generated profit on operating activity amounting to 10,928 thousand PLN and a 3.3% rate of return on operating profit, which is a slightly lower level than in 2004 (3.6%).
A definitely lower loss on other net profit (loss) was the result of making lower revaluation deductions than in 2004 on account of deliveries and services.

Already in 2004, the Company began an intensive process of putting overdue receivables in order. In 2005 basically only the receivables that had been difficult to collect were put in order. In result of these actions the circulation of accounts receivable was reduced by further 16 days as compared with the year 2004 and amounted to 99 days. This index level is lower than average indexes in the “building” industry.
Current revaluation deductions will still occur because the financial standing of some Company customers is not too good, however the deductions should not reach the level from previous years.

Loss on financial activity for 2005 amounted only to 63 thousand PLN. Its very low level was influenced by reversion of deductions formed for discounts of long-term guarantee deposits established as on 1st January, 2004, i.e. on the day of applying International Financial Reporting Standards.

The gross profit of the Company for 2005 amounted to 10,865 thousand PLN and was higher than net profit derived for 2004 by 3,465 thousand PLN. Return of sales on the level of net profit amounted to 2.6 % and was higher than the rate of return for 2004 by 0.7 %.

1.3. Financial analysis

In 2005 the balance sheet sum of the Company increased by 4,159 thousand PLN as compared with 2004, that is by 2.5 %.
On the assets side the increase mainly took place in fixed assets under item “deferred income tax assets” which was directly connected with the amount of Company liabilities on account of building contracts. At the same time there was a considerable drop in short-term receivables for deliveries and services whereas their circulation index dropped from 115 to 99 days.
On the liabilities side the balance sheet sum increased mainly in result of increased deferred income tax, especially in connection with increased outstanding amounts payable to contracting parties for performed building works.
At the same time there was a drop in short-term liabilities which resulted from reduced indebtedness on account of credits and debenture bonds as well as a drop in liabilities on account of deliveries and services, simultaneously accompanied by shortening of the average time of their payment from 56 to 51 days.

		2005	**2004**
I.	**Rates of return**		
1.	Net rate of return on sales *Net profit (loss) net / income from sales*	2.61%	1.87%
2.	Rate of return on operating activity *Operating profit (loss) / income from sales*	3.26%	3.61%
3.	Return on equity (ROE) *Net profit (loss) / equity capital average*	13.05%	8.38%
4.	Return on assets (ROA) *Net profit (loss) / average assets*	5.12%	3.27%

II. Liquidity ratios

1.	Current liquidity ratios *Working assets / (short-term liabilities + prepayments and accruals)*	1.26	1.21
2.	Rapid liquidity ratio *(working assets - stocks – prepayments and accruals)/ (short-term liabilities + prepayments and accruals)*	1.04	1.05

III. Circulation indexes

1.	Circulation of receivables for deliveries and services in days *Average receivables for deliveries and services x 360 days / income from sales*	99	115
2.	Circulation of liabilities for deliveries and services in days *Average receivables for deliveries and services x 360 days / income from sales*	51	56
3.	Circulation of stocks in days *Average stocks x 360 days / income from sales*	8	12
4.	Assets circulation ratio *Income from sales /average total assets*	1.96	1.75

IV. Rate of indebtedness

1.	Rate of general indebtedness *Foreign capital / total assets*	59.90%	61.73%

The presented ratios reflect in synthetic form the measurement of management effectiveness in the Company, which should be assessed as good.

In 2005 Company entities continued implementing the programme of cutting costs, especially fixed costs. The programme will consequently be applied during future years.
The rates of return of the Company show a growing tendency during the last few years, especially in result of increasing net profit derived by the Company.

Liquidity ratios in 2005 and 2004 actually have remained on an unchanged satisfactory level.
A definite drop in the circulation rate of short-term receivables for deliveries and services in 2005, which dropped from the level of 115 days in 2004 to 99 days in 2005 should be assessed as a very positive feature. At the same time the circulation rate of short-term liabilities for deliveries and services dropped from 56 days in 2004 to 51 days in 2005.

In consequence the disproportion between time limits for settling receivables and liabilities dropped in 2005 as compared with 2004, thus causing a drop in the Company's demand for working capital.
The stocks circulation ratio dropped in 2005 to 8 days (2004 – 12 days), which proves that the stocks were managed effectively.

1.4. Management of Financial Resources.

In 2005 the Elektrobudowa SA was fully capable of discharging itself of financial obligations both in relation to suppliers and subcontractors as well as financial institutions.
The financial activity of Elektrobudowa SA in 2005 was conducted with the use of its own funds and credit lines opened in banks, which gave the Group full power to discharge itself of the contracted obligations.
Significant dangers which could have effect on activity of the Company is the economic situation, delay of investment decisions as well as delays or lack of privatization decisions.

Two factors affected the financial activity of the Company in 2005: level of interest rate and rates of exchange. The drop in interest rates had considerable influence on the quality of co-operation with banks, the possibility of enjoying credit lines, whereas foreign exchange fluctuations which strengthened Polish currency in 2005, on one hand contributed to a lower level of income from export was partly compensated by lower expenses involved with import and transactions securing foreign exchange fluctuations (forward).
Keeping in mind the diversification of sources for financing activity in July 2005 the Company signed and Agreement for a Bond Issue Programme for the sum up to 30.0 million PLN, which resulted in reducing the level of contracted credits, thus reducing financial costs involved.

In 2005 the entire activity of the Company was aimed at negotiating with banks such credit line granting conditions that would secure the risk of banks and allow the Company to take full advantage of the possibilities resulting from products offered by the banks.
During the same time cooperation with insurance companies in the area of insurance guarantees developed significantly.
These activities were reflected in:
- the very good credit situation of the Company,
- discontinuous increase of lines for bank and insurance securities,
- flexible use of all sources of financing making use of about half the potential possibilities of the Company in that area.

The Company closely monitors contracting parties from the point of view of assessing their financial possibilities which form the basis for the decision before concluding a contract.
The current financial situation of the Company allows it to effect its obligations on time and gives the possibility of conducting investment activity.

1.5. Human Capital Management

In 2005 average employment in the Company was 1,158 full-time jobs and was higher by 5.9 % than in the year 2004.
Total employment at the end of 2005 amounted to 1,142 persons and was 1 % lower than at the end of 2004.
In the total number of employees 708 persons were employed in worker positions, whereas 450 persons were employed in other non-worker positions.

Both the quantity as well as the competence and skills of employed personnel ensure to the Group performance of its current tasks and development works resulting from the implemented strategy and financial plans for 2005 and the years to come.

Change of the Company's Collective Labour Contract carried out as from 1st January, 2004, considerably simplified the remuneration system which had been in effect in the Company and tied the wages with economic effectiveness.

Concerning employment efficiency and output level in 2005 the Company noted a significant growth of these indexes as compared with 2004. Employment efficiency which shows a level of income from sales per one employee in 2005 was on the level of 290,557 thousand PLN and was higher by about 12.3 % than in 2004.

Remuneration effectiveness shows an even higher growth; it shows the amount of income generated by each złoty spent on remuneration of workers. In 2005 on the scale of the whole Company this amounted to 8.2; it was higher than in 2004 by about 15.5 %. When it comes to employment profitability and remuneration profitability also a considerable improvement was observed, namely employment profitability reckoned on gross profit increased by about 30.3% as compared with the previous year and reached the level of 9.4 thousand PLN, whereas remuneration profitability increased by about 34.0 % reaching a level of 0.27 PLN.

The development of workers' qualifications and competence is a crucial issue in the development of the Company. Hence in 2005 training policy was being implemented as planned.

In total 437.9 thousand PLN was spent on training, i.e. about 13 % more than in 2004.

Referring the level of expenditure spent on training to the personnel wages fund in 2005 this share made up 1.1% , which is conformable with the long-term policy of worker development.

In 2005 no conflicts with the trade unions had been noted. Co-operation with social partners is developing in a constructive way with mutual respect of the partners' rights.

In 2005 the Company supported and respected generally accepted human rights as well as observed worker standards in the scope of the right of association and collective negotiations and counteracting discrimination practices.

1.6. Prospects for the development of activity of Elektrobudowa SA - significant risk factors and dangers.

In 2005 Elektrobudowa SA not only noted increased income from sales but also obtained a record number of orders which as on 31st December amounted to 229.4 million PLN, whereas the value of orders in 2005 was 376.1 million PLN.
These are the best results in the history of the Company. This had been made possible due to:

1. Reducing costs to a level ensuring competitiveness of our offers, in result of restructuring.
2. Building competences in the scope of general contracting
3. Diversifying the order range.
4. Establishing in a consistent way a territorial customer service network

The sale offer of ELEKTROBUDOWA SA in 2005, similar as in previous years, consisted of a whole range of already existing products and new items which supplement the offer and make it more attractive. It consisted of the following product groups:

1. Low, medium and high voltage power networks
2. Power and lighting electricalsystems
3. Electrical installations for hazardous zones
4. Low, medium and high voltage substations
5. Tests, commisioning and start-up
6. Detail engineering for the scope specified under items 1-4
7. Technical maintenance services
8. General execution of investment works
9. Conceptual work and consulting

The Customer is offered complex project performance starting with designing and prefabrication of equipment through delivery, installation, start-up together with operation during the trial period and ending with after-sales service. The Company's potential allows it to put into effect the majority of complex projects on its own.
Depending on the economy branch the intensity in activity of competitive companies varies. In some our Company is an unquestioned leader and in some it is just beginning to build its position.

Development of Elektrobudowa SA to a large extent depends on customers representing the following branches: power, building, petrochemical, mining, metallurgic industries, commerce and the army. Each of the foregoing branches has specific requirements in the area of services and products involved with generation, transmission and use of electric energy and differs in its method of functioning as well as in its economic situation.

Until the end of 2004 the building branch was characterized by distinct recession. Having dealt with recession on the investment market, one can expect full reversion of the falling tendency during the years to come.

Future income of the Elektrobudowa SA will undoubtedly depend on such factors as:
- favourable economic situation in the power, chemical, metallurgic and building branches,
- price level of electrical and power materials and equipment as well as metallurgic products,
- intensification of canvassing activities, particularly on the markets of Central and Eastern Europe,
- course of privatization processes, especially in the power industry,
- implementation of the Company's marketing strategy,
- systematic reduction of Company operating costs.

One should not forget that the necessity of adapting to European Union standards will increase the delay of investments in the power industry. The expected growth will take place in the perspective of several years.

However, we are expecting a fairly quick inflow of EU funds in 2007 and the following years, which should contribute to a considerable increase of investments in infrastructure and environmental protection.

2. Market situation - sale and supply.

2.1. Directions of Sale.

The activity of ELEKTROBUDOWA SA mainly concentrates on the Polish market. Export in 2005 amounted 23,541 thousand PLN, which made up 7.3 % of the income from the sale of products and referred mainly to the export of electrotechnical products manufactured by the Company

Presented below is an itemization of income from the sale of Elektrobudowa SA products according to sectors of the economy to which sales were made in 2005.

***Areas of** activity*	***2005***		***2004***	
	Value in thousand PLN	***Structure %***	*Value in thousand PLN*	***Structure %***
Power industry - generation	79,339	24.0	84,609	30.4
Power industry - distribution	18,420	5.6	20,086	7.2
Chemical industry	43,350	13.1	43,089	15.5
Housing and utility building	19,554	5.9	11,604	4.2
Shopping facilities	48,524	14.7	27,879	10.0
Building materials industry	2,410	0.7	133	0.1
Mining industry	55,809	16.9	47,269	17.0
Food industry	4,727	1.4	193	0.1
Metallurgic industry	8,444	2.6	6,235	2.2
Environmental protection objects	8,279	2.5	1,791	0.6
Paper industry	5,669	1.7	2,292	0.8
Transport	1,180	0.3	1,894	0.7
Export of products	23,541	7.3	21,607	7.8
Other areas	11,052	3.3	9,250	3.4
Total	**330,298**	**100.00**	**277,931**	**100.00**

Traditionally, the power generating sector was the biggest source of income in 2005 (24.0% in the branch structure of sales) where ELEKTROBUDOWA SA is present with its products and full range of electric installation works on all newly erected, developed and modernized professional power industry buildings and structures. The Company also makes installations connected with environmental protection (2.5 % of income).

Elektrobudowa SA market of activity, second in size, is the mining industry. The share of income from this branch of industry in the total income in 2005 amounted to 16.9%. This area of activity included lignite mines, coal mines and copper mines.

In 2005, deliveries and works performed in new and modernized commercial centres, i.e. supermarkets and chains of stores such as KAUFLAND, Hypernova, Biedronka and LIDL had a large share in the Company's total income and amounted to 14.7 %. The specific nature of works performed in shopping facilities is a new area of activity for the Company.

Yet another area of Elektrobudowa SA activity in 2005 was the chemical industry. The volume of sales to the chemical industry in 2005 made up 13.1 % of the total receipts and mainly concerned PKN ORLEN S.A. in Płock.

The remaining market segments allowed the Company to considerably supplement its sales outside the forenamed basic branches of the economy.

It should be underlined that for the last two years export sales are on a relatively high level, more than 7% of the sale income. The directions and structure of export sales of products and materials have been presented below :

	2005		***2004***	
	Value (PLN'000)	%	Value (PLN'000)	%
Russia	18,416	78.2	7,940	36.2
Belarus	2,567	10.9	6,374	29.1
Lithuania	1,121	4.8	5,819	26.5
Germany	147	0.6	841	3.8
Croatia	179	0.8	672	3.1
Turkey	582	2.5	158	0.7
Finland	159	0.7	139	0.6
Virgin Islands	289	1.2		
Other (Spain, Bulgaria)	81	0.3		
Total export sales	**23,541**	**100.00**	**21,943**	**100.00**

2.2 Dependence on one or more customers

None of the contracts performed in 2005 exceeded 10% of income from sales generated by Elektrobudowa during that period.
In 2005 the Company noted its highest sales income on performance of the contract GPZ-1 and GPZ-2 in PKN ORLEN in Płock. The value of performed works on this contract amounted to 24.2 million PLN.

2.3 Sources of supply

During the period 1st January – 31st December, 2005, the sources of supply did not change much as compared with previous years. ELEKTROBUDOWA SA does not depend on one or several suppliers, whose share in sales would exceed 10%. However, keeping in mind the necessity of cutting costs we are looking for new suppliers of materials who offer more favourable purchasing conditions.

3. Important contracts

3.1. Contracts for building and assembly works and supply of products.

PKN Orlen
- modernization of GPZ – 1 and GPZ - 2

ST PROJEKT Wrocław
- shopping and service facility in Bolesławiec

EC Żerań
- delivery, installation and start-up

Hydrobudowa - 6 S.A.
- office building DOM BETA in Warszawa (Warsaw)

Unimex Warszawa
- shopping and service facility Hypernova in Tczew

STOEN Warszawa
- Młynów station

3.2 Insurance contracts

a/ TRYG Polska Towarzystwo Ubezpieczeniowe S.A :
- third-party and Casco insurance contract for means of transport;

b/ Towarzystwo Ubezpieczeń i Reasekuracji "WARTA" SA w Warszawie

contracts for:
- all-risk insurance of building and assembly production,

c/ AIG Polska Towarzystwo Ubezpieczeń S.A. Warszawa
- third-party insurance of members of the Management Board, Signing Clerks and Supervisory Board of the Company.

d/ Towarzystwo Ubezpieczeniowe Alianz Polska S.A. w Warszawie
- Insurance of property against fire and other events;
- Insurance of cash against theft and burglary;
- Insurance of cargo during railway transport;

e/ Towarzystwo Ubezpieczeniowe Gerling S.A.
- Third-party insurance on account of conducting business activity;

4. Investments

Investments implemented in 2005

Total investment outlays in 2005 amounted to **5,595 thousand PLN**. (this includes intangible assets in the sum of 1,103 thousand PLN).
The basic part of the outlays was earmarked for further modernization and current reproduction of tangible assets of the Company.

Within the framework of further modernizing the production plant in Konin modernization of the technical services building was continued, as well as modernization of the powder paint shop, widening of the internal asphalt road and building of strengthened warehouse racks, allowing the more rational use of storage space for storing sheet metal. Moreover, the roof of Skawina Hall in Mikołów had undergone modernization.

We bought equipment for improvement of the production process and assembly technology for the sum of 786 thousand PLN and continued replacing computer hardware (for the sum of 578,390 PLN) and purchased modern software.

Among other things, the Company bought control and measuring instruments, machines for busducts, pneumatic and hydraulic riveting machines, pin welding machines, cable hoists, hammers and percussion drills, hydraulic cutting machine for reinforced cables, presses for cable ends, rail benders, semi-automatic welder. The Company also purchased two multimedia projectors and six modern digital copying machines with the purpose of further improving office work organization.
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n order to improve transport twenty-two estate cars and motors cars were purchased as well as a diesel fork-lift truck with 4 ton hoisting capacity.

The 2005 year investments were financed from the Company's own funds, this includes to a slight degree from receipts obtained from the sale of tangible components.

Investment plan for 2006

Planned investment outlays for 2006 amount to **7,080 thousand PLN**:

- purchase of machines and equipment - 969.2 thousand PLN,
- fixed assets under construction - 3,187.5 thousand PLN,
- means of transport and equipment - 1,487.0 thousand PLN,
- hardware - 630.7 thousand PLN,
- intangible assets - 805.8 thousand PLN.

The investment needs in 2006 result from the necessity of continuing to modernize the Company's fixed assets in order to achieve continuously higher efficiency of the production process.

We are planning, among other things, to further modernize the technical services building in Konin, build a roofed connecting building between bays No. 1 and 2, which will integrate the nearly 6 thousand metre production area.

We will still continue to modernize the stock of machines. We are planning to buy: control and measuring apparatuses, equipment for bus bar dressing, professional power tools, scaffolding, welding equipment, 2T LPG fork-lift truck and the modernization of bending brakes.

A considerable part of the outlays planned for 2006 will be allocated to the organization of
modern workstations, including the purchase of computer equipment and software (1,436.5 thousand PLN).
Fulfilment of the plan will be financed from the company's own funds.

5. Transactions with related entities.

In 2005 Elektrobudowa S.A. concluded only typical and routine transactions with related companies on market conditions, which resulted from current operating activity conducted by the Company.
The transactions of Elektrobudowa SA with related entities amounted to 18,502 thousand PLN, this including:

- sale of products to KRUELTA Company 18,416 thousand PLN
- sale of products to KONIP Company 86 thousand PLN.

6. Information on negotiated credits, loan agreements, securities and guarantees.

6.1. List of Credit Agreements as on 31.12.2005.

Item	Name of Bank	Type of credit	Date of payment	Limit amount
1.	BRE BANK S.A. Warszawa	overdraft	30.09.2006	3.0 million PLN
2.	ING Bank Śląski	overdraft	30.05.2006	8.0 million PLN
3.	Bank Handlowy w Warszawie S.A.	overdraft	Renewable every 7 days	6.1 million PLN
4.	PKO BP S.A. w Warszawie	Turnover	19.05.2006	5.0 million PLN
5.	PKO BP w Warszawie	overdraft	19.05.2006	5.0 million PLN
6.	BPH S.A. w Krakowie	Issue of debenture bonds	05.01.2006	up to 30.0 million PLN
7.	BPH S.A. w Krakowie	overdraft	19.04.2006	8.0 million PLN
8	ING Bank Śląski	foreign currency loan	10.07.2006	410 thousand EUR

The credit agreements specified under Item 1-5 and 7 were extended in 2005 with annexes to the earlier concluded agreements.

6.2. Loan agreements

In 2005 the Company did not take, nor grant any loans and guarantees beside the ones mentioned in Note 37a of the Company's Financial Statements for 2005.

6.3. Guarantees.

In 2005 the Capital Group did not receive, nor grant any guarantees.

7. Differences between results for 2005 and the published forecast

Financial results obtained in 2005 basically did not differ from the forecasts published in 2005.

	Performance for 2005 *Million PLN*	***Forecast of 19.12.2005*** *Million PLN*
Income from sale of products, goods and materials	334.8	330.1
Net profit	8.7	8.0

8. List of shareholders holding at least 5% of the total number of votes at the General Meeting of Shareholders on 28th February, 2006.

	%	Number of shares equalling the number of votes
Powszechny Zakład Ubezpieczeń S.A.	8.72	346,245
OFE Nationale Nederlanden Polska	11.58	459,828
OFE PZU Złota Jesień	8.12	322,421
Generali (formerly Zurich) (Open Pension Fund) Otwarty Fundusz Emerytalny	8.81	350,000
Credit Suisse Life Pensions (Open Pension Fund) Otwarty Fundusz Emerytalny	5.04	20,.00
Commercial Union (Open Pension Fund) Otwarty Fundusz Emerytalny	5.65	224,543
AIG (Open Pension Fund) Otwarty Fundusz Emerytalny	5.34	211,963

The company does not have any knowledge of agreements which could in future change the proportion of shares held by existing shareholders.

9. Basis of preparation

The Company's Financial Statement for 2005 is the first annual Financial Statement drawn up in conformity with the International Financial Reporting Standards (IFRS). Until the year 2004 inclusive, Financial Statements of Elektrobudowa SA were drawn up in conformity with provisions of 29th September, 1994, Accountancy Act. On 8th February, 2005, the General Meeting of Shareholders approved the acceptance by the Company of International Financial Reporting Standards approved by the European Union. The Company started applying IFRS on 1st January, 2004, and drew up its opening Balance Sheet on that date. Agreements and description of passing from the Accountancy Act to IFRS has been presented in additional notes to the Financial Statement. Comparative data for 2004 was transformed in order to reflect the effects of passing to IFRS.

Earlier the Company had not prepared, nor published full Separate Financial Statements conformable with IFRS. In order to understand the general financial situation and results of operating activity of Elektrobudowa SA the individual Financial Statement should be read together with the Consolidated Financial Statement. The Consolidated Financial Statement for the year ending on 31st December, 2005, can be found in the Consolidated Annual Report for the year ending on 31st December, 2005.

This Financial Statement for 2005 was drawn up in conformity with the historical cost principle, except the revaluation of assets and financial liabilities (including derivative instruments) which are shown in their fair value. Preparation of the financial statements in conformance with IFRS requires the application of certain key accounting estimates. The Management Board has to take a number of subjective decisions concerning the application of the accounting standards. Areas which are more complex or requiring a subjective judgement, and also those areas in which the assumptions and estimates are significant for the financial statements as a whole, are described in additional information to the financial statements, in Notes 15, 20 and 23.

10. More important technical development works conducted 2005.

The development works programme in the year 2005, similar as in the preceding year, concentrated on developing the assortment range of medium and low-voltage switchgear.

In connection with requirements of the Russian market the following works were conducted:
- type series of D-40P switchgear panels mounted in container stations was extended and
- the design of D-12P switchgear was prepared with LF1, LF2 and LF3 circuit breakers as well as a retrofit solution with LF2 circuit breaker.

Moreover the following works were conducted in 2005 within the framework of development works:

- we elaborated a D-12-2S switchgear with a double system of busbars for rated current In =2500 A with disconnecting switch motor drives. A drive system allowing their remote control was designed for the switchgear. These solutions were successfully applied in Janina Coal Mine, metal plant in Guinea iin Africa, ZGE Sobieski and Centrum Station in Cracow.
- we prepared a new variant of switchgear type PREMEG II with VF switches which allowed us to obtain the contract with the Kozienice thermal-electric power station,
- taking into consideration the often difficult conditions in which the container stations operate a double reinforced roof was designed and in result of market requirements additional station depths were introduced,
- we carried out tests of compact mining switchgear type PREM GJ designed for mounting in mine headings. Owing to the innovatory nature of proposed solutions we obtained the possibility of conducting an earmarked project financed by the Polish Academy of Sciences,
- we worked out and put into production a resistor-contactor starter designed for mounting in container stations.

Plans for the next year.

1. Continuation of earmarked project of compact switchgear type PREM-GJ .
2. Elaboration and certification of switchgear D-12P with 3AH5 switches.
3. Completion of works on the „System of low-voltage solid conductors up to 6000 A”.
4. Extension of NGWR low-voltage switchgear current parameters.
5. Elaboration of Unipanel switchgear with BB TEL switch (mainly Russian market).

11. Statement of conformity with legislation

All information required by the regulation of the Minister of Finance dated 19 October 2005 on current and periodical information provided by the issuers of securities were included in the financial statements of Elektrobudowa SA, except those which do not occur in the Company.
The Management Board of Elektrobudowa declares that according to their best knowledge the statements of the Company and the comparable data have been prepared in accordance to the accounting principles which are in force and that they reflect in true, fair and clear way the material and financial situation of the issuer and its financial result, and also that the report from the issuer’s operations presents a true picture of development, achievements and situation of the issuer, including the description of basic risks and threats.

12. Statement on choice of an auditor

The Management Board of Elektrobudowa SA declares that the Company Pricewaterhouse Coopers Sp. z o.o with registered office in Warsaw pl. Armii Ludowej 14, 00-638 Warszawa , which carried out the audit of the Financial Statement of Elektrobudowa SA and the Consolidated Financial Statement of the Elektrobudowa SA Capital Group for the year 2005 was chosen after carrying out a survey in conformity with provisions of the law.
The forenamed Company and Chartered Accountants who conducted the audit of the forenamed Statements fulfilled the conditions of expressing an unbiased and independent opinion of the audit, conformable with relevant regulations.

Information on the contract concluded with the Chartered Auditor

A contract for the audit of the interim Financial Statements of Elektrobudowa SA and the Elektrobudowa SA Capital Group for the period from 01.01-30.06.2005, as well as an audit of the Financial Statements of Elektrobudowa SA and Consolidated Financial Statements of the Elektrobudowa SA Capital Group for 2005 was concluded with the Company PricewaterhouseCoopers Sp. z o.o. with registered office in Warsaw on 16th June, 2005. The established remuneration for surveying and auditing the forenamed Statements was 100 thousand PLN.

The review of the interim financial statement of Elektrobudowa Sa for the six months ended 30 June 2004 and auditing of the financial statements of ElektrobudowaSA for the year 2004 were performed by the auditing company BDO Polska Sp. z o.o.with registered office in Warsaw, against the agreement concluded on 20 April 2004.
The established remuneration for reviewing and auditing the forenamed Statements was 98 thousand PLN

14. Statement on observing the corporate governance rules

The Management Board declares that the Company fully observes the corporate governance rules resolved by the Securities Exchange Board and Management, contained in the document “Best Practices in Public Companies 2005” in a way defined in the “Statement” accepted and published by the Company.

SIGNATURES OF ALL MANAGEMENT BOARD MEMBERS

Forename and surname	Post/Function	Date	Signature
Jacek Faltynowicz	President of the Management Board	27.03.2006	
Jarosław Tomaszewski	Member of the Management Board	27.03.2006	
Ariusz Bober	Member of the Management Board	27.03.2006	
Stanisław Rak	Member of the Management Board	27.03.2006	
Tomasz Jaźwiński	Member of the Management Board	27.03.2006	